

**Exhibit 5**

**COST OF CAPITAL AND CAPITAL  
STRUCTURE**

## Exhibit 5

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Tab 1 of 1

# Capital Structure and Cost of Capital

1

## CAPITAL STRUCTURE

2

### INTRODUCTION

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St. Thomas Energy Inc. has followed the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* dated December 11, 2009, to determine its capital structure and relied on the Board's November 25, 2013 *Cost of Capital Parameter Updates Letter* for the cost of capital parameters. St. Thomas Energy Inc. will update the cost of capital parameters when new parameters are made available prior to the Board's decision on St. Thomas Energy Inc.'s 2015 distribution rates.

9

Overall, St. Thomas Energy Inc. is requesting a deemed interest expense of \$886,973 and a deemed return on equity of \$1,178,768 for a total regulated return on capital of \$2,065,741 for the 2015TY.

13

STEI's Capital Structure and its Cost of Capital are described below.

15

### CAPITAL STRUCTURE

Capital structure describes the amount of debt and equity held by STEI and the Cost of Capital describes the debt instruments held by STEI, the long and short term debt rates used and the return on equity rate.

20

Copies of the Board's Appendices 2-OA and 2-OB provide further details on St. Thomas Energy Inc.'s capital structure and cost of capital.

23

As noted above, STEI adheres to the deemed capital structure as directed by the OEB. STEI's capital structure is 40% equity, 56% long term debt and 4% short term debt.

26

The derivation of the 2015TY regulated return on capital is illustrated in Table 5-1 below:

27

1  
2

**Table 5-1**

	<b>Current Application</b>			<b>2011 Approved</b>		
	<b>Deemed Portion</b>	<b>Effective Rate <sup>1</sup></b>	<b>Return Amount</b>	<b>Deemed Portion</b>	<b>Effective Rate</b>	<b>Return Amount</b>
Short-Term Debt	4.00%	2.11%		4.00%	2.46%	
Long-Term Debt	56.00%	4.88%		56.00%	5.60%	
Total Equity	40.00%	9.36%		40.00%	9.58%	
<b>Regulated Rate of Return</b>	<b>100.00%</b>	<b>6.56%</b>		<b>100.00%</b>	<b>7.07%</b>	
<b>Rate Base <sup>2</sup></b>			31,484,195			
<b>Regulated Return on Capital</b>			<b>2,065,741</b>			
<i>Deemed Interest Expense</i>			886,973			
<i>Deemed Return on Equity</i>			1,178,768			

3

1 **COST OF CAPITAL (RETURN ON EQUITY AND COST OF**  
2 **DEBT)**

3 **COST OF CAPITAL**

4 ***Cost of Debt***

5 St. Thomas Energy Inc. used 4.88% and 2.11% for its Long Term and Short Term rates  
6 respectively for the 2015 Test Year. These rates are consistent with the OEB's November 25,  
7 2013 letter entitled. "Cost of Capital Parameter Updates for 2014 Cost of Service Applications".  
8

9 ***Long-Term Debt***

10 For the 2015TY, the Long-Term Debt Amount is 56% of the calculated Rate Base to which the  
11 approved Long-Term Debt Rate of 4.88% is applied. For rate making purposes St. Thomas  
12 Energy Inc. proposes recovering \$886,973 [Note: this is equal to 56% of the rate base multiplied  
13 by 4.88%] for the Long-Term Debt component for the 2015TY.  
14

15 The City of St. Thomas renewed its Promissory Note with STEI in November 2010. The  
16 Promissory Note bears an interest rate of 9.00% per annum. The Promissory Note is contained  
17 in Attachment 1 of this Exhibit and is scheduled to mature during the Test Year.  
18

19 For the purpose of setting rates, STEI has used the Board approved rate 4.88% for all the long  
20 term debt based on the Board's long-term deemed rate as discussed above.  
21

22 ***Short-Term Debt***

23 For the 2015TY, the short-Term Debt Amount is 4% of the calculated Rate Base to which the  
24 approved short-Term Debt Rate of 2.11% is applied. For rate making purposes St. Thomas

1 Energy Inc. proposes to recover \$1,178,768 [Note: This is equal to the ST debt rate of 2.11%  
2 multiplied by 4% of the rate base] in the 2015TY for the Deemed Short-Term Debt component.

3

4 For the purpose of setting rates, STEI has used the Board approved rate 2.11% for all the short  
5 term debt based on the Board's short-term deemed rate as discussed above.

6

## 7 ***Other Credit Facilities***

8 St. Thomas Energy Inc. shares the credit facilities with its parent Ascent Group Inc. in order to  
9 obtain a lower interest rate.

10

11 STEI, in support of the Smart Meter program, has a \$3.5M share of the total term loan with the  
12 Bank of Nova Scotia. The Bank of Nova Scotia loan is an operating line of credit provided by the  
13 Bank. The interest rate per the credit agreement is prime plus 0.25%, or 3.25% based on the  
14 current prime rate. This loan agreement is confidential because it has information pertaining to  
15 the Parent company's competitive business.

16

17 In addition, STEI has a \$2.2M Letter of Credit facility which can only be used by STEI to support  
18 its prudential requirements with the IESO. The Letter of Credit Facility is not a drawn loan and  
19 is not part of the deemed capital structure.

20

## 21 **COST OF EQUITY**

### 22 ***Common Equity***

23 As noted previously, St. Thomas Energy Inc. adheres to the Board's Cost of Capital policy. For  
24 rate making purposes, St. Thomas Energy Inc. proposes to recover an amount of \$274,503 for  
25 the Return on Equity through distribution rates in the 2015TY. This amount is computed based  
26 on the Board's default rate of return on equity of 9.36% which will be updated when a new rate  
27 is made available by the Board prior to the 2015 EDR decision.

1 ***Preference Shares***

2 St. Thomas Energy Inc. does not propose to include any preference share component in its  
3 capital structure for the 2015TY. St. Thomas Energy Inc. notes that the Board's approved policy  
4 on capital structure does not require that a preference share component be included in the  
5 capital structure.

## Attachment 1 of 1

# Promissory Note Agreement



## AMENDED AND RESTRUCTURED PROMISSORY NOTE

**Amount:** \$7,714,426

**Date:** November 15, 2010

**WHEREAS** the undersigned, **ST. THOMAS ENERGY INC.** (the "**Debtor**"), entered into a promissory note with **THE CORPORATION OF THE CITY OF ST. THOMAS** (the "**Holder**"), dated as of May 1, 2004, the full principal amount of which was due and payable by the Debtor on November 6, 2010, extended to November 22, 2010 by an Amendment to Promissory Note dated November 1, 2010 (as amended, the "**Note**");

**AND WHEREAS** the Debtor continues to require financing from the Holder for its operations and consequently desires to restructure and reschedule the Note;

**AND WHEREAS** the Holder has agreed with the Debtor to restructure and reschedule the Note as provided herein;

**NOW FOR VALUE RECEIVED**, the Debtor, and the Holder agree that the Note is hereby amended and restructured to read as follows:

### **Principal and Interest:**

The Debtor hereby acknowledges itself indebted and unconditionally promises to pay to the order of the Holder, at 545 Talbot Street, St. Thomas, Ontario, N5P 3V7, the sum of **SEVEN MILLION, SEVEN HUNDRED AND FOURTEEN THOUSAND, FOUR HUNDRED AND TWENTY SIX DOLLARS. (\$7,714,426)** in lawful money of Canada, together with interest thereon from and after the date hereof, at a rate of nine percent (9%), with interest on overdue interest, as well after as before maturity, default and judgment. Such interest rate will be open for adjustment, on an annual basis, upon mutual consent of the parties.

Interest payments due hereunder shall be paid by the Debtor to the Holder monthly, on the thirtieth day of each calendar month, in arrears, with the final payment being due on the Maturity Date (as hereinafter defined).

### **Fees:**

In consideration for the restructuring of the Note, the Debtor agrees to pay a fee to the Holder in the amount of \$100,000 (the "**Restructuring Fee**").

In consideration of the Holder agreeing to reschedule the Note so as to continue to finance the Debtor beyond the original maturity date of the Note, the Debtor agrees to pay a set up fee in the amount of \$125,000 (the "**Set-Up Fee**").

Both the Restructuring Fee and Set-Up Fee shall be payable and fully earned as of the date hereof.

In compensation for an annual credit review of the Debtor and this Amended and Restructured Promissory Note facility, including evaluating its adjustable terms, the Debtor agrees to pay the Holder a fully earned and non-refundable annual credit review fee of \$41,400

payable in advance on the date hereof in respect of each of the second, third, fourth and fifth years of the term of this Amended and Restructured Promissory Note (“**Credit Review Fee**”). For greater certainty, if demand is made for repayment of the principal hereunder at any point prior to the Maturity Date of this Amended and Restructured Promissory Note, no portion of the Credit Review Fee shall be refunded to the Debtor.

The principal sum owing hereunder, shall be repayable in full on the earlier of (i) November 15, 2015 (the “Maturity Date”), and (ii) the date which is 366 days from the date on which the Holder makes written demand to the Debtor for repayment.

**Additional Terms:**

If any payment hereunder is due on a day which is a Saturday, Sunday or legal holiday in the Province of Ontario, such payment shall be made on the next business day, with appropriate interest adjustment.

Notwithstanding any other provisions of this Amended and Restructured Promissory Note, the Debtor shall pre-pay as of the date hereof a portion of the interest payable hereunder equal to two and a quarter per cent (2.25%) per annum in respect of each year of the term hereof. Other amounts owing under this Amended and Restructured Promissory Note may be prepaid by the Debtor, in whole or in part, at any time or times, without penalty, notice or bonus.

The Holder will have the right at any time and from time to time to waive any or all of the interest then owing or accruing due to it, without prejudice to its right to receive interest in accordance with the terms of this Amended and Restructured Promissory Note in respect of any subsequent period or in respect of any prior period for which interest has not been so waived.

The Debtor hereby waives demand, presentment, protest, dishonour and notice of dishonour in respect hereof. The failure of the Holder to exercise any of its rights hereunder in any instance will not constitute a waiver thereof in that or any other instance.

In the event that (i) the Debtor fails to make any of the payments provided for pursuant to the provisions of this Amended and Restructured Promissory Note when due or (ii) the Debtor becomes bankrupt or insolvent, or (iii) a Change of Control (as hereinafter defined) occurs, the entire principal sum then outstanding plus interest as herein provided shall immediately become due and payable at the option of the Holder exercisable upon written notice given to the Debtor. Following any such acceleration of the sums due hereunder, the Debtor hereby agrees to pay all costs and expenses (including all reasonable legal costs) paid or incurred by the Holder in collecting the principal of and interest accrued hereunder. “Change of Control” means, any change to the legal or organizational structure of the Debtor or any change in the composition of its shareholders which results in any shareholder or group acquiring 50.0% or more of any class of voting shares of the Debtor, or that any person (or group of persons acting in concert) otherwise acquires, directly or indirectly (including through affiliates), the power to elect a majority of the board of directors of the Debtor or otherwise direct the management or affairs of the Debtor by obtaining proxies, entering into voting agreements or trusts, acquiring securities or otherwise.

The Debtor covenants that all principal and interest payable hereunder will rank, at a

minimum, concurrently and equally with all unsecured debt of the Debtor.

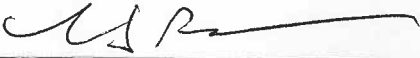
The Holder agrees to formally postpone their position to the Debtor's senior secured lender in a form acceptable to the senior secured lender.


This Amended and Restructured Promissory Note will enure to the benefit of and be binding upon the respective successors and assigns of the Holder and the Debtor.

This Amended and Restructured Promissory Note will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

DATED as of the 15<sup>th</sup> day of November 2010.

**ST. THOMAS ENERGY INC.**

By:   
Name: CHRISTOPHER BROWN  
BOARD CHAIR

By:   
Name: BRIAN HOLLYWOOD  
PRESIDENT & CEO

Acknowledged and accepted by the Holder as of the 15<sup>th</sup> day of November, 2010.

**THE CORPORATION OF THE CITY OF  
ST. THOMAS**

By:   
Name:

By:   
Name: W.S. GRAVES  
CITY CLERK

1

## **NON-FOR-PROFIT CORPORATIONS**

2 STEI does not operate any not for profit corporations.