2.8 EXHIBIT 5: COST OF CAPITAL AND CAPITAL STRUCTURE

2.8 EXHIBIT 5: COST OF CAPITAL AND CAPITAL	
STRUCTURE	E5
2.8.1 CAPITAL STRUCTURE	E5\T1
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COST OF DEBT)	E5\T2
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Exhibit 5 Filing Requirements: Cross Reference List

OEB Chapter 2 Filing Requirements- Heading/Sub-heading			Guelph Hydro Application Heading/Sub-heading
2.8	Exhibit 5: Cost of Capital and Capital Structure	2.8	Exhibit 5: Cost of Capital and Capital Structure
2.8.1	Capital Structure	2.8.1	Capital Structure
2.8.2	Cost of Capital (Return on Equity and Cost of Debt)	2.8.2	Cost of Capital (Return on Equity and Cost of Debt)
2.8.3	Not-for-Profit Corporations	2.8.3	Not-for-Profit Corporations

1 2.8 EXHIBIT 5: COST OF CAPITAL AND CAPITAL STRUCTURE

2 2.8.1 CAPITAL STRUCTURE

3 Overview of Capital Structure

- 4 The purpose of this evidence is to provide an overview of Guelph Hydro's capital
- 5 structure and financing plans for the 2016 Test Year. Detailed schedules on capital
- 6 structure and debt issuances can be found in this Exhibit, <u>Appendix 5-A:</u> Chapter 2
- 7 Appendix 2-OA and <u>Appendix 5-B:</u> Chapter 2 Appendix 2-OB. Guelph Hydro's capital
- 8 structure for ratemaking purposes and the ensuing evidence has been prepared in
- 9 accordance with the Report of the Board on Cost of Capital for Ontario's Regulated
- 10 Utilities (the "Cost of Capital Report") (EB-2009-0084) issued on December 11, 2009.

11 Capital Structure:

- 12 In its 2012 Cost of Service Application (EB-2011-0123), Guelph Hydro's deemed capital
- 13 structure of 60.00% total debt and 40.00% equity had an OEB-approved regulated rate
- 14 of return of 6.80%.

1	5
	J.

Table #	5-1
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Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	5.26%
Short-term Debt	4.00%	2.08%
Return On Equity 40.00%		9.42%
Weighted Debt Rate		5.05%
Regulated Rate of Return		6.80%

16

17 Guelph Hydro has prepared this Application with a deemed capital structure of 56.00%

18 Long Term Debt, 4.00% Short Term Debt, and 40.00% Equity to comply with the Cost of

19 Capital Report.

- 1 The Total Capitalization (debt and equity) equate the Total Rate Base of \$162,960,102
- 2 (please see Appendix 5-A of this Exhibit and Exhibit 2, Tab 1, 2.5.1 Rate Base).
- 3

Table 5-2

Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	5.18%
Short-term Debt	4.00%	2.16%
Return On Equity	40.00%	9.30%
Weighted Debt F	Rate	4.98%
Regulated Rate of Return		6.71%

4

5 Cost of Debt: Long Term

- 6 On December 6, 2010, Guelph Hydro finalized an arrangement with a group of investors
- 7 with CIBC acting as advisor, to secure \$65 million of financing (debentures) at an
- 8 interest rate of 5.264%, which interest rate included a spread of 1.65% over the
- 9 benchmark Government of Canada (please see <u>Appendix 5-B</u> of this Exhibit).
- 10 The proceeds from this debt issue were partly used to retire a promissory note for \$30
- 11 million owed to the City of Guelph, and partly used to retire \$12.558 million
- 12 intercompany promissory note payable to Guelph Hydro Inc. (GHI). The remaining
- 13 amount of \$22.442 million was used to fund Guelph Hydro's Smart Meter Plan and the
- 14 Arlen Transformer Station. A copy of Guelph Hydro's 2010 promissory note is provided
- 15 in <u>Appendix 5-C of this Exhibit</u>.
- Guelph Hydro intends to issue an additional \$30 million in long-term debt to fund capital expenditures that were incurred in the 2012 to 2015 period (which had been funded out of cash from operations) and to fund on-going capital expenditures in 2016 and beyond. The \$30 million incremental long-term debt will be issued in either mid-to-late 2015 or in 2016, depending on market conditions. Should Guelph Hydro issue long-term debt in 2015, it will file an update to this pre-filed evidence. One of the benefits of undertaking

- a debt issue in 2015 is that the actual debt costs will be known with certainty. The
 additional long-term debt issue will ensure consistency between the company's actual
- 3 capital structure with its deemed capital structure of 60% debt-to-40% equity. Because
- 4 Guelph Hydro's capital expenditures in the 2012 to 2015 period have been funded out
- 5 of cash from operations, the company's actual debt-to-equity ratio has fallen below its
- 6 deemed debt-to-equity ratio. As at December 31, 2014, Guelph Hydro's actual long-
- 7 term debt-to-equity ratio was 1.08, which is indicative of an under-leveraged balance
- 8 sheet relative to the OEB-allowed debt-to-equity ratio of 1.50. With the planned
- 9 incremental \$30 million in long-term debt, Guelph Hydro's actual (or "book") capital
- 10 structure will largely reflect the deemed 60% debt-to-40%-equity capital structure.

11 Explanation of the applicable debt rate for each existing debt instrument

- 12 Guelph Hydro is requesting a return on deemed Long Term Debt for the 2016 Test Year
- 13 of 5.18%, which rate has been determined as a weighted average interest rate:
- 14 (\$65,000,000 X 5.264% + \$30,000,000 X 4.85% X 7/12) = \$4,270,276 total interest for
- 15 2016 Test Year
- 16 Issuance/floatation costs of \$250,000 are included in the 4.85% interest rate for the new
- 17 \$30 million long-term debt issue.

18 Table 5-3 Addition to Debt Rate for Issuance (Floatation) Costs \$250,000 Total Issuance Costs \$30,000,000 Principal amt of debt Less Issuance costs \$29,750,000 Assumed Interest Rate 4.81% Interest Expense \$1,442,750 4.85% Effective Debt Rate 19

- 20 \$4,270,276/ (\$65,000,000 + \$30,000,000 X 7/12) X 100 = 5.18% weighted interest rate
- 21 for 2016 Test Year.

- 1 In order to make the OEB's Appendix 2-OB work, Guelph Hydro has changed the
- 2 formula in cell I112 from "=IF(H112=0,"",J112/H112)" to
- 3 "=IF(H112=0,"",J112/(H99+H100*7/12))".

4 Cost of Debt: Short Term

- 5 Guelph Hydro is requesting a return on deemed Short Term Debt for the 2016 Test
- 6 Year of 2.16%. The requested Short-Term Debt rate is in accordance with the Cost of
- 7 Capital Report, and Guelph Hydro will adjust the rate as needed to determine its final
- 8 revenue requirements in accordance with the Cost of Capital Parameter Updates for
- 9 2016 Cost of Service Applications anticipated to be issued by the OEB on or about
- 10 November 2015. Guelph Hydro's use of a Return on Short Term Debt of 2.16% is
- 11 without prejudice to any revised Cost of Capital Parameter updates that may be
- 12 adopted by the OEB.
- 13 Appendix 5-B: Chapter 2 Appendix 2-OB of this Exhibit presents Guelph Hydro's debt
- 14 instruments.

15 **Preferred Shares**

- 16 Guelph Hydro currently has no preferred shares in its equity structure, and has no plans
- 17 to issue any preferred shares in 2016 and beyond.

18 **Common Equity**

21

- 19 Guelph Hydro issued 1,000 common shares on October 31, 2000 (please see Exhibit 1,
- 20 Appendix 1-K: Guelph Hydro 2013 Audited Financial Statements Note 19).

Authorized: Unlimited number of common shares Issued: 1,000 common shares \$ 43,374

1 2.8.2 COST OF CAPITAL (RETURN ON EQUITY AND COST OF DEBT)

2 Return on Equity:

3 Guelph Hydro is requesting a return on equity ("ROE") for the 2016 Test Year of 9.30% 4 in accordance with the formulaic methodologies documented in the Cost of Capital 5 Report and the Cost of Capital Parameter Updates for 2015 Cost of Service 6 Applications issued by the OEB on November 20, 2014. Guelph Hydro understands 7 that the OEB will finalize the ROE for 2016 rates based on the formulaic methodology in 8 the Cost of Capital Report on or about November 2015, and Guelph Hydro will rely on 9 the OEB's 2016 ROE to determine its final revenue requirement. Guelph Hydro's use of 10 an ROE of 9.30% is without prejudice to any revised ROE that may be adopted by the

11 OEB.

12 Forecasts of new debt anticipated in the bridge and test years - Financing Plans

13 Guelph Municipal Hydro Inc. (GMHI) is the sole shareholder of Guelph Hydro. Guelph 14 Hydro attempts to maintain an actual capital structure that mirrors its deemed structure 15 through managing its debt load and through rebalancing equity via dividends to its 16 shareholder as necessary. Due to capital expenditures undertaken between 2012 and 17 2015 which were largely financed out of cash from operations, the Company's actual 18 debt-to-equity ratio has fallen below its deemed debt-to-equity ratio. To bring the 19 company's capital structure back into balance with its deemed capital structure, and to 20 more appropriately match long-term assets with long-term liabilities, Guelph Hydro 21 intends to issue an additional \$30 million in long-term debt in 2016 to fund distribution 22 capital. Tables 5-4 and 5-5 below show Guelph Hydro's deemed debt before and after 23 the issuance of the additional long-term debt.

24

1

Table 5-4: Prior to Long-Term Debt Issue

Current Deemed Debt Compared to Actual Long Term Debt			
Deemed Long Term Debt Percentage	56.00%	А	
2016 Rate Base	\$162,960,102	В	
Deemed Long term debt	\$91,257,657	C = A x B	
Actual Long Term debt	\$65,000,000	D	
Deemed debt in Excess of Current Long Term Debt	\$26,257,657	E= C - D	

³

2

Table 5-5: Post-Long-Term Debt Issue

Deemed Debt in Excess of Current Long Term Debt				
Deeemed Long Term Debt Percentage	56.00%	А		
2016 Rate Base	\$162,960,102	В		
Deemed Long term debt	\$91,257,657	C = A x B		
Actual Long Term debt	\$95,000,000	D		
Deemed debt in Excess of Current Long Term Debt	-\$3,742,343	E= C - D		

4

5 Financial Market Overview and Forecast

6 The 2012 to 2015 period can be characterized as the post-2008/2009 financial crisis 7 recovery period. Canadian government bond yields reached historic lows over this 8 period driven by economic growth concerns, moderating inflation expectations and 9 geopolitical events. With the worst of the economic crisis considered to be over, 10 corporate debt spreads, which had remained low for much of 2014, began to move 11 higher late in 2014 due to volatility in financial markets and due to the decline in oil 12 prices, which was indicative of increased corporate risk. Nevertheless, despite periodic 13 increases in short-term volatility, the demand for corporate credits is expected to remain stable into 2015 and beyond, and Guelph Hydro believes that it will be able to issue new 14 15 long-term debt at relatively attractive long-term rates.

2 Table 5-6 Forecast Coupon Underlying Corporate Rate before **Govt Bond** Spread flotation Descripti Expected Rate Forecast cost **Issue Date** Principal on Term June 2016 \$30,000,000 TBD 2.0% \$30 M Issue 10 Years 4.81%

3

1

- 4 Forecasted debt rates are based on the most recent projection of equivalent term
- 5 Government of Canada Bonds, as provided by a consensus forecast from three
- 6 Schedule 1 Chartered banks (please see Exhibit 5, Appendix 5-D), plus Guelph Hydro's
- 7 estimate of corporate spreads at the time of issuance.

Forecast Long-Term Debt Issues

8

9

Table 5-7

Consensus Forecast of 10-year Government of Canada Bonds + Guelph Hydro's Credit Spread

Forecast before	eflotation
costs	
2015	2016
2.85%	2.75%
3.15%	4.04%
2.28%	2.99%
2.76%	3.26%
1.55%	1.55%
4.31%	4.81%
	costs 2015 2.85% 3.15% 2.28% 2.76% 1.55%

10 Short-Term Debt

11 For the 2016 Test Year, Guelph Hydro does not forecast the need to issue short-term

12 debt. Together with the planned long-term debt issue, cash levels are expected to be

13 sufficient to fund short-term financing needs throughout the test year. Guelph Hydro

- maintains a short-term credit facility that is available for the company to draw upon in the
 event that short-term funds are required.
- 3 As outlined in the Board's Cost of Capital Report, short-term debt is deemed throughout
- 4 the forecast as 4% of the company's capital structure for ratemaking purposes.
- 5 For the purposes of the pre-filed evidence, the forecast short debt interest rate applied
- 6 for the determination of 2016 revenue requirement is 2.16%, the Board's approved rate
- 7 for the 2015 Cost of Service applicants. The final short-term debt rate will be updated
- 8 according to the Cost of Capital guidelines prior to the January 1, 2016 distribution rates
- 9 implementation date.
- 10 Guelph Hydro's use of a Return on Short Term Debt of 2.16% is without prejudice to
- 11 any revised Cost of Capital Parameter updates that may be adopted by the OEB.

12 Credit Rating

Guelph Hydro's long-term debt has been issued directly by the company via a private
placement to institutional lenders. This obligates Guelph Hydro to obtain and maintain a
credit rating. Guelph Hydro's debt obligations are rated by S&P as follows:

16

Table 5-8

Rating Agency	Short-Term Debt	Long-Term Debt
Standard & Poor's	Not rated	A/Stable

17 The most recent ratings report from S&P is provided in this Exhibit, Appendix 5-E.

18 Currently, Guelph Hydro has outstanding long-term debt in the amount of \$65 million,

19 detailed in <u>Appendix 5-B of this Exhibit.</u>

20

1 Rate Base and Rate of Return

- 2 Exhibit 5, Appendix 5-A: Chapter 2 Appendix 2-OA details Guelph Hydro's rate base,
- 3 deemed debt/equity ratios, deemed rate of return, debt/equity ratios and rates of returns
- 4 for 2012 Board Approved, and 2016 Test Year Forecast.
- 5 **Profit or loss on redemption of debt and/or preference shares**
- 6 This filing requirement is not applicable to Guelph Hydro as it does not have any
- 7 preferred shares, nor did it redeem any debt.

8 Current promissory notes or other debt arrangements with affiliates

- 9 Guelph Hydro does not have any promissory notes or other debt arrangements with its
- 10 affiliates.

1 2.8.3 NOT-FOR-PROFIT CORPORATIONS

- 2 A Reserve Requirement is not applicable because Guelph Hydro is a for-profit
- 3 corporation.

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-A Page 1 of 3 Filed: April 24, 2015

APPENDIX 5-A: Chapter 2 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: 2012 Board Approved

Line No.	Particulars	Capitaliza	Capitalization Ratio		Return	
		(%)	(\$)	(%)	(\$)	
	Debt					
1	Long-term Debt	56.00%	\$78,218,963	5.26%	\$4,117,446	
2	Short-term Debt	4.00% (1)	\$5,587,069	2.08%	\$116,211	
3	Total Debt	60.0%	\$83,806,031	5.05%	\$4,233,657	
	Equity					
4	Common Equity	40.00%	\$55,870,688	9.42%	\$5,263,019	
5	Preferred Shares		\$ -		\$ -	
6	Total Equity	40.0%	\$55,870,688	9.42%	\$5,263,019	
7	Total	100.0%	\$139,676,719	6.80%	\$9,496,676	

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: 2016 Test Year

Line No.	Particulars	Capita	alization Ratio	Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$91,257,657	5.18%	\$4,723,581
2	Short-term Debt	4.00%	(1) \$6,518,404	2.16%	\$140,798
3	Total Debt	60.0%	\$97,776,061	4.98%	\$4,864,378
	Equity				
4	Common Equity	40.00%	\$65,184,041	9.30%	\$6,062,116
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$65,184,041	9.30%	\$6,062,116
7	Total	100.0%	\$162,960,102	6.71%	\$10,926,494

<u>Notes</u>

(1)

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

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-B Page 1 of 3 Filed: April 24, 2015

APPENDIX 5-B: Chapter 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 2012

Row	Description	Lender	Affiliated or Third-	Fixed or	Start Date	Term	Principal	Rate (%)	Interest (\$)	Additional
T(OW	Description	Lender	Party Debt?	Variable-Rate?	Start Date	(years)	(\$)	(Note 2)	(Note 1)	Comments, if any
1	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	6-Dec-10	20	\$ 65,000,000	5.264%	\$3,421,600.00	
Total							\$ 65,000,000	0.05264	\$3,421,600.00	

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, or with any subsequent update issued by the Board.

3 Add more lines above row 12 if necessary.

Year 2013

Row	Description	Lender	Affiliated or Third-	Fixed or	Start Date	Term	Principal	Rate (%)	Interest (\$)	Additional
	Description		Party Debt?	Variable-Rate?	otart Dato	(years)	(\$)	(Note 2)	(Note 1)	Comments, if any
1	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	6-Dec-10	20	\$ 65,000,000	5.264%	\$3,421,600.00	
Total							\$ 65,000,000	0.05264	\$3,421,600.00	

Year 2014

Row	Description	Lender	Affiliated or Third- Party Debt?	Fixed or Variable-Rate?	Start Date	Term (vears)	Principal	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
						0	(Ψ)			
1	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	6-Dec-10	20	\$ 65,000,000	5.264%	\$3,421,600.00	
Total							\$ 65,000,000	0.05264	\$3,421,600.00	

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-B Page 3 of 3 Filed: April 24, 2015

Year 2015

Row	Description	Lender	Affiliated or Third-	Fixed or	Start Date	Term	Principal	Rate (%)	Interest (\$)	Additional
NOW	Description	Lender	Party Debt?	Variable-Rate?	Start Date	(years)	(\$)	(Note 2)	(Note 1)	Comments, if any
1	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	6-Dec-10	20	\$ 65,000,000	5.264%	\$3,421,600.00	
Total							\$ 65,000,000	0.05264	\$3,421,600.00	

Year 2016

Row	Description	Lender	Affiliated or Third-	Fixed or	Start Date	Term	Principal	Rate (%)	Interest (\$)	Additional
Row	Description	Lender	Party Debt?	Variable-Rate?	Start Date	(years)	(\$)	(Note 2)	(Note 1)	Comments, if any
1	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	6-Dec-10	20	\$ 65,000,000	5.264%	\$3,421,600.00	
2	Senior Unsecured Debentures, Series A		Third-Party	Fixed Rate	1-Jun-16	10	\$ 30,000,000	4.85%	\$ 848,676.47	
Total							\$ 95,000,000	0.05176	\$4,270,276.47	

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-C Page 1 of 2 Filed: April 24, 2015

APPENDIX 5-C: Debentures Pricing



GUELPH HYDRO ELECTRIC SYSTEMS INC. Pricing Sheet – Series A

Issuer:	Guelph Hydro Electric Systems Inc. ("GHESI")
Amount:	\$65 million
Description:	Senior Unsecured Debentures, Series A
Term:	20 years
Repayment:	Interest payable semi-annually in arrears; principal repaid in full at maturity
Pricing Date:	December 1, 2010
Closing Date:	December 6, 2010
Maturity Date:	December 6, 2030
Benchmark:	Government of Canada 5.00% due June 1, 2037
Current Benchmark Price:	\$123.49 per \$100.00 par value
Current Benchmark Yield:	3.614%
Credit Spread:	1.65%
Yield:	5.264%
Price:	\$ <u>100.00</u> per \$100.00 par value
GHESI Coupon:	5.264% (same as Yield)
Redemption Price:	Canada + <u>41</u> bps

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-D Page 1 of 5 Filed: April 24, 2015

APPENDIX 5-D: Schedule 1 Chartered Banks

2016

2.2 2.3

1.9

2.0 1.5 2.0 2.1

1.2 4.5 4.6 4.4

-0.1

5.9 -0.1 -7.0 0.2

2.138

4.3

2.1 2.2 2.1 2.1

2.5

2.1

1.90

1.81

2.99

61

-40

-38.0 -1.8 11.0

-49.0

1.161

105.7

1.41

4.0

2.1 4.4

2.0

3.7

6.3

180 -1.0 1.0

1.85

-0.3 -0.1 0.3 0.4

Canadian Economic Outlook BMO Capital Markets Economics November 21, 2014 2013 Q4 2014 Q4 2015 Q4 2013 2014 2015 Q1 Q2 Q3 Q1 Q2 Q3 Q1 02 Q3 PRODUCTION Real GDP (chain-weighted) Final Sales (quarter/quarter % change : a.r.) 3.2 2.0 2.0 3.0 2.7 2.9 1.7 1.0 1.7 2.1 1.9 2.5 2.6 2.7 2.0 1.8 24 2.5 2.8 2.5 2.3 2.2 2.5 5.5 Final Domestic Demand 1.5 0.8 2.1 1.9 0.9 0.0 3.2 1.7 1.3 1.7 2.0 2.0 1.9 1.4 1.8 3.1 2.1 4.9 2.0 1.5 2.0 2.2 2.1 1.0 2.1 2.4 Consumer Spending 1.8 3.6 2.7 1.3 3.7 23 1.6 1.9 22 2.5 2.5 2.1 1.8 1.9 2.2 -0.4 5.5 1.7 14.7 -0.7 2.7 1.6 -3.0 2.2 2.2 Durables Non-Durables 11.9 1.6 -0.9 4.2 1.5 10.0 2.0 2.2 2.3 1.0 2.2 3.8 2.3 4.3 2.9 0.1 1.9 1.8 Services 3.2 1.3 2.3 2.3 1.9 Government Spending -0.2 -0.3 0.7 -2.2 -0.1 0.5 3.8 -5.5 -1.1 -1.4 -2.1 -0.1 1.3 1.7 1.5 2.0 1.1 4.3 4.5 4.0 1.1 3.7 4.0 3.5 1.1 4.2 4.5 4.0 1.2 2.7 2.6 3.1 -0 1 -0.1 2.0 0.9 13 0 1 03 Business Investment Non-Residential Construction Machinery and Equipment -2.5 -0.5 -6.3 1.3 1.0 2.0 -0.3 0.3 -1.3 3.2 4.9 0.1 1.8 0.6 4.2 2.6 5.0 -1.7 2 3 2.0 3.0 0.0 4.5 2.5 0.7 5.5 3.9 -2.3 3.7 1.4 Residential Construction -4.5 6.6 0.5 -5.1 1.2 11.9 3.0 8.1 0.0 0.0 0.7 -0.4 2.0 1.2 5.9 1.2 6.2 Exports 8.2 2.0 0.6 18.9 49 53 54 -0.9 2.4 -3.8 10.5 Imports 4.1 6.0 3.5 (billions of chained 2007 doll rs : a.r. 8.1 -0.9 -38.1 0.9 Inventory Change 11.8 12.2 1.1 17.3 1.3 14.8 6.3 6.1 6.7 12.4 8.5 -0.6 -30.7 1.6 -2.0 -21.4 2.6 0.2 -39.6 0.2 Contribution to GDP Growth 14 -0.1 -18.9 0.1 0 1 -0.0 -11.9 -0 1 -0.1 -8.0 -0.2 -0 1 Net Exports Contribution to GDP Growth -40.5 -0.6 -37.8 0.7 -14.3 -10.1 -21.8 -11.1 -41.8 1.1 0.6 0.9 0.6 0.5 0.5 0.8 1.1 0.6 (billions of dollars : a.r.) Nominal GDP 1,874 5.6 1,879 1,903 5.2 1,919 3.3 1,952 7.0 1.987 1.990 2.013 2.038 2.061 2.084 1.894 1.974 2.049 1.968 (% chng : a.r.) 1.2 3.3 4.8 4.5 3.4 3.9 0.6 5.0 4.6 4.2 3.8 INFLATION GDP Price Index CPI All Items (quarter/quarter % change : a.r.) 5.9 2.8 2.4 2.2 2.6 1.9 2.2 1.6 -0.7 -0.1 0.4 0.5 -0.4 3.7 1.9 2.1 2.0 2.6 2.4 2.2 1.3 1.2 2.0 2.7 2.1 0.9 2.0 2.0 Excl. Food & Energy 1.3 0.9 0.9 0.3 2.3 5.5 2.1 1.5 1.9 2.0 2.3 2.0 0.9 1.2 1.6 2.0 2.3 Food Prices 1.2 0.8 0.8 0.9 2.2 2.2 2.0 2.2 Energy Prices Services -3.6 2.4 -2.2 0.5 -10.1 33 99 10.9 13.6 -6.7 26 99 35 1.5 4.1 2.1 0.9 0.6 2.6 1.6 3.6 3.3 2.3 2.0 (year/year % change) 2.2 1.9 CPI All Items 2.2 2.3 0.9 0.8 1.1 0.9 1.4 2.2 2.1 BoC Core 1.3 1.2 1.3 12 1.3 20 21 18 18 1.2 1.8 1.9 FINANCIAL Overnight Rate 3-Month T-Bill (average for the quarter : %) 1.00 1.00 1.00 1.00 1.00 1.00 1.00 1.00 1.00 1.00 1.00 0.95 0.93 1.23 2.58 0.87 1.26 2.47 0.93 0.94 1.28 2.14 0.90 0.90 0.90 0.90 1.16 0.97 0.91 0.96 1.00 1.00 1.18 1.18 90-Day BAs 10 Year Bond Yield 1.96 2.35 2.26 1.92 2.58 2.04 2.07 2.16 2.32 2.56 2.28 Canada/US spread: (bps) 90 day 10 year 86 95 96 87 82 90 91 88 88 01 60 91 88 -3 -13 -27 -36 -4 -16 -30 -31 -31 -33 -35 -31 -33 -32 FOREIGN TRADE (billions of dollars : a.r.) -54.3 -2.7 -1.5 Current Account Balance (% of GDP) Merchandise Balance -61.5 -3.3 -7.8 -62.6 -3.3 -9.0 -48.1 -2.5 7.1 40.9 -2.0 9.2 -60.3 -3.2 -56.8 -47.5 43 9 46. 43.9 -60.3 48 ! 45.0 -3.0 -2.4 6.6 -2.4 2.8 -2.3 4.8 -2.1 6.7 -3.2 -7.3 -2.5 5.6 -2.2 5.9 -2.2 10.3 -6.7 -5.7 Non-Merchandise Balance -53.6 -537 -51.1 -53.6 -55.2 -54.1 -54.2 -52.8 -51.8 51.0 -50.5 -50 1 -53.0 -54.1 -50.9 (average for the qu rter) Exchange Rate (US¢/C\$) 95.3 90.6 97.7 91.7 99.1 1.009 96.3 1.023 1.038 Exchange Rate (C\$/US\$) 1.049 1.103 1.090 1.089 1.127 1.139 101.7 1.152 1.166 1.175 1.030 1.102 1.158 91.5 1.33 Exchange Rate (¥/C\$) 96.4 95.2 95.7 93.1 93.6 95.5 99.7 101.6 101.5 101.8 94.7 95.5 101.6 Exchange Rate (C\$/Euro) 1.34 1.38 1.43 1.51 1.50 1 4 4 1.42 1.42 1.42 1.41 1.37 1.47 1.42 INCOMES Corporate Profits Before Tax % change) (year/year 6.5 9.0 15.3 13.0 6.9 5.0 -5.5 -6.2 22.2 0.1 0.7 2.4 11.4 Corporate Profits After Tax 6.6 9.0 5.9 10.5 8.0 2.0 1.0 0.5 -0.5 4.3 7.3 6.6 1.3 Personal Income Real Disposable Income 4.4 3.3 3.7 2.6 3.3 1.8 3.5 2.1 3.4 1.8 3.3 1.3 3.7 3.2 3.4 4.2 4.3 4.9 3.7 2.5 3.4 4.2 1.6 0.8 0.9 1.8 2.1 1.4 1.6 (average for the quarter : %) 4.9 3.6 3.8 3.7 4.1 Savings Rate 5.9 5.1 4.7 5.2 3.8 5.2 OTHER INDICATORS (quarter average) 7.1 7.1 7.1 172 -10.1 2.4 1.73 Unemployment Rate (%) 7.1 7.0 7.0 7.0 6.9 6.5 6.4 6.4 6.9 7.1 194 9.6 2.8 175 1.3 5.0 1.74 Housing Starts (000s, a.r.) Existing Home Sales (y/y % ch) MLS Home Price Index (y/y % ch) 190 -3.2 2.1 194 8.3 4.0 199 4.8 5.3 188 7.5 5.4 189 9.7 3.6 184 -3.7 1.9 181 -5.0 0.5 188 0.8 2.8 190 5.0 5.2 185 0.0 2.0 197 186 6.0 0.1 5.1 1.79 Motor Vehicle Sales (mlns, a.r.) 1.78 1.79 1.85 1.99 1.99 1.90 1.89 1.88 1.87 1.77 1.89 1.89 (quarter/quarter % change : a.r.) 0.9 1.2 0.8 0.9 7.6 -2.9 4.5 6.5 Employment Growth Industrial Production 0.3 4.4 2.0 1.6 1.0 2.4 0.4 4.5 -0.6

Federal Budget Balance (% of FY GDP)

Note: Outlined areas represent forecast periods

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CIBC WORLD MARKETS INC.

Economic Insights - November 19, 2014

MARKET CALL

- North American markets are spending too much time pondering Europe, Japan and China, and giving
 too little weight to better growth and job news closer to home. We're sticking with our view that labour
 market progress will see the Fed hike as early as March, stinging the bond market in the process. That
 said, our overall call for the extent of rate hikes in Canada and the US is on the dovish side, allowing the
 bond market to recoup some of its losses later next year.
- Dollar-Canada has made quicker work than we expected towards our unchanged target of 1.18, but the recent leg was rooted in oil's decline, which is vulnerable to some reversal if OPEC trims output, production falls short due to geopolitics, or global growth rebuilds demand. Still, the Bank of Canada is likely to engineer a different source of loonie weakness as it lags behind the Fed in hiking in 2015.
- In light of downside news on Japan, we've weakened our call for the yen in anticipation of more
 aggressive monetary stimulus. Beyond our 2016 forecast horizon, the yen could see a more dramatic
 weakening if, as is increasingly likely, Japan finds that monetizing its debt and letting inflation lower
 its debt/GDP ratio is its only way out. We slightly lowered our euro targets as well, given that our Fed
 surprise still lies ahead.

		2014	2015				2016			
END OF PERIOD:		18-Nov	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
CDA Overnight targe 98-Day Treasu 2-Year Gov't Bo 10-Year Gov't Bo 30-Year Gov't B	ry Bills ond Bond	1.00 0.89 1.00 2.00 2.56	1.00 1.00 1.65 2.55 3.30	1.00 1.05 1.90 3.00 3.45	1.25 1.20 2.20 3.05 3.50	1.50 1.45 2.20 2.80 3.35	1.50 1.45 1.95 2.75 3.25	1.50 1.45 1.85 2.70 3.20	1.50 1.40 1.95 2.75 3.25	1.50 1.45 2.00 2.80 3.35
U.S. Federal Funds 91-Day Treasu 2-Year Gov't No 10-Year Gov't No 30-Year Gov't B	ry Bills ote Note	0.10 0.01 0.51 2.32 3.05	0.25 0.40 1.05 2.95 3.50	0.75 0.60 1.60 3.60 4.00	1.25 0.85 1.80 3.45 3.90	1.25 1.10 1.70 3.25 3.70	1.25 1.35 1.65 3.25 3.65	1.25 1.25 1.65 3.30 3.70	1.25 1.20 1.70 3.35 3.75	1.50 1.40 1.90 3.45 3.80
Canada - US T-Bill Sp Canada - US 10-Year		0.87 -0.33	0.60 -0.40	0.45 -0.60	0.35 -0.40	0.35 -0.45	0.10 -0.50	0.20 -0.60	0.20 -0.60	0.05 -0.65
Canada Yield Curve (3 US Yield Curve (30-Ye	,	1.56 2.54	1.65 2.45	1.55 2.40	1.30 2.10	1.15 2.00	1.30 2.00	1.35 2.05	1.30 2.05	1.35 1.90
EXCHANGE RATES	CADUSD USDCAD USDJPY EURUSD GBPUSD AUDUSD USDCHF USDBRL USDMXN	0.88 1.13 115 1.24 1.58 0.86 0.97 2.57 13.54	0.88 1.14 115 1.22 1.58 0.84 0.99 2.75 13.18	0.85 1.17 116 1.21 1.57 0.83 1.01 2.70 13.18	0.85 1.18 118 1.22 1.59 0.82 1.00 2.82 13.26	0.86 1.16 116 1.25 1.62 0.84 0.98 2.83 13.18	0.87 1.15 115 1.26 1.62 0.86 0.98 2.87 13.20	0.87 1.15 115 1.27 1.62 0.87 0.98 2.92 13.35	0.87 1.15 114 1.29 1.63 0.88 0.97 2.97 13.35	0.86 1.16 114 1.30 1.63 0.90 0.96 3.02 13.29

INTEREST & FOREIGN EXCHANGE RATES

CIBC WORLD MARKETS INC.

Economic Insights - November 19, 2014

		ECO	NOM	IC UP	DATE					
CANADA	14Q2A	14Q3F	14Q4F	15Q1F	15Q2F	15Q3F	2013A	2014F	2015F	2016
Real GDP Growth (AR)	3.6	1.9	2.5	3.0	3.1	2.8	2.0	2.3	2.7	2.
Real Final Domestic Demand (AR)	3.2	1.3	1.6	1.6	2.2	2.0	1.5	1.4	1.9	1.
All Items CPI Inflation (Y/Y)	2.2	2.1	2.1	2.0	1.7	2.0	0.9	1.9	2.1	2.
Core CPI Ex Indirect Taxes (Y/Y)	1.7	2.0	2.3	2.2	2.2	2.2	1.2	1.8	2.2	2.
Unemployment Rate (%)	7.0	6.9	6.5	6.5	6.4	6.4	7.1	6.9	6.4	6.
u.s.	14Q2A	14Q3A	14Q4F	15Q1F	15Q2F	15Q3F	2013A	2014F	2015F	2016
Real GDP Growth (AR)	4.6	3.5	2.6	2.8	2.8	2.6	2.2	2.2	2.9	2.
Real Final Sales (AR)	3.2	4.2	2.4	2.8	2.9	2.9	2.2	2.2	2.9	2.
All Items CPI Inflation (Y/Y)	2.1	1.8	1.7	1.6	1.3	1.8	1.5	1.7	1.8	2.
Core CPI Inflation (Y/Y)	1.9	1.8	1.8	2.0	1.9	2.1	1.8	1.8	2.1	2.
Unemployment Rate (%)	6.2	6.1	5.9	5.8	5.7	5.7	7.4	6.2	5.7	5.

CANADA

A surprise drop in monthly GDP for August was a second marker pointing to a sub-2% growth pace for the third guarter. But even if a strong September won't do much to boost Q3's results, its hand-off to Q4 will mean that growth prospects for the tail end of the year will look more respectable than previously envisioned. In the labour market, the arrival of the much awaited catch-up in jobs has us now on track to reach full employment sooner. Reduced slack in the nearer-term means that the outlook for core inflation will look stouter than the headline, staying incrementally above the BoC's 2% target.

UNITED STATES

The continued slide in oil prices, combined with expectations for a more gradual rebound, has seen us chop our 2015 CPI forecast to 1.8%, from 2.0%. However, we still expect that core inflation could firm a little as slack in the domestic economy diminishes. GDP growth should average around 3% a quarter through to mid-2015, although the decline in unemployment may be more gradual from here as previously discouraged workers begin to be drawn back into the labour market.

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Royal Bank of Canada (RBC)

Kindly find attached the latest financial markets monthly report detailing RBC Research's official published rates forecast (page 5).

	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q 4-16	
5yr GoC	2.35	2.50	2.75	3.00	3.25	3.45	3.65	3.75	
10yr GoC	2.80	3.00	3.25	3.55	3.75	3.95	4.15	4.30	
30yr GoC	3.25	3.40	3.60	3.85	4.00	4.25	4.50	4.70	

Guelph Hydro Electric Systems Inc. EB-2015-0073 Exhibit 5 Appendix 5-E Page 1 of 1 Filed: April 24, 2015

APPENDIX 5-E: Credit Rating – Standard and Poor's Report



Research

Summary: Guelph Hydro Electric Systems Inc.

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Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

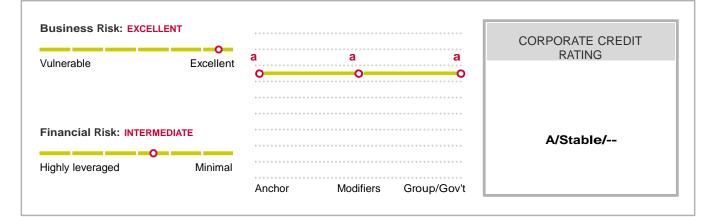
Liquidity

Government Influence Ratings

Score Snapshot Related

Criteria And Research

Summary: Guelph Hydro Electric Systems Inc.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
 A relatively transparent and predictable regulatory regime Commodity costs are pass-through The ability to recover all fixed and variable operating costs 	 Stable, regulated cash flow "Low" likelihood of extraordinary government support

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' assessment of Guelph Hydro Electric Systems

Inc.'s (GHESI) predictable and stable cash flows from its low-risk, regulated distribution business. The outlook also reflects our expectation that management will continue to focus on its core regulated business during our two-year outlook horizon.

Downside scenario

Although we don't expect it, a material, adverse regulatory ruling or a significant increase in leverage leading to sustained deterioration in forecast adjusted funds from operations (AFFO)-to-debt close to 13% could lead to a downgrade. Debt-financed unregulated activity exceeding 10% of total AFFO could also lead to a lower rating.

Upside scenario

We could raise the rating if we believe that GHESI will demonstrate sustainable long-term growth or deleveraging that result in AFFO-to-debt of greater than 23%.

Based on our current forecast and the company's current financial policy, which we do not expect will change, we believe the prospect of an upgrade is limited during our outlook horizon.

Standard & Poor's Base-Case Scenario

Guelph Hydro is a local electricity distribution Company (LDC) operating in City of Guelph, Ont. The rating's key driver continues to be the Ontario Energy Board's (OEB) regulatory framework and the utility's performance within it.

Assumptions

Key Metrics

- The regulatory regime will be relatively stable, and GHESI will not experience any material, adverse regulatory decisions
- The company will continue to earn close to its allowed return on equity on its deemed capital structure
- It will not make any material, debt-financed unregulated investments
- Rates in 2014 and 2015 will be established under the OEB's relatively new incentive-rate mechanism (IRM)

	2013A	2014E	2015E
AFFO/debt	8%	14%-17%	14%-17%
Debt-to-debt and equity	51.6%	50%-54%	50%-54%

Note: The AFFO/debt figure for 2013 was as a result of IFRS accounting regulation. In 2013, cost of power exceeded the regulatory charges and billings by approximately C\$6.1 million, resulting in a regulatory asset of a similar amount. Under IFRS, this regulatory asset is treated as an expense therefore reducing net income and resulting in the drop of AFFO/debt metric to 8%. Based on the OEB regulatory practice, we expect that GHESI will be able to recover the C\$6.1 million. The 2014E and 2015E figures above do not include the recovery of the regulatory asset. AFFO--Adjusted funds from operations. A--Actual. E--Estimated.

Business Risk: Excellent

We view GHESI's business risk profile as "excellent", reflecting our assessment of the OEB's regulatory framework. We view the regulatory process as transparent, consistent and predictable. The board publishes details of all hearings, and the rationale supporting its decisions. Consistency and predictability are supported by the use of standard methodology applied to all utilities in its jurisdiction, including a transparent formula for allowed returns, and a consistent deemed capital structure that has not changed for many years. In addition, during times of change, the regulator follows a public process of study and consultation that allows management to adjust to new regulatory or market developments.

The regulator's mandate is to balance the needs of the customer and utility investors. To date, it has imposed no penalties in the industry, although it does monitor performance standards.

Rates are typically determined in a timely fashion and allow for the recovery of prudently incurred costs and the opportunity to earn a modest return. Furthermore, several mechanisms, including rate riders, specific adjustments under incentive based ratemaking, and (in some circumstances) an ability to request a rate-reset hearing, support timely recovery of material and unexpected capital costs.

The LDC has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements which reduce operating risk. Furthermore, commodity costs flow through rates thereby limiting the LDC's exposure to commodity risk and associated cash-flow volatility.

We expect the company's customer profile to remain stable because Guelph has what we view as a strong, stable public sector with a large university, schools, hospitals, and municipal, county, and provincial government offices. We believe that the public sector is less sensitive to macroeconomic stresses and business cycles. GHESI's more volatile industrial customer base accounts for less than 10% of revenues. Operating efficiency, as measured by standard industry reliability measures, is above average, although there are no penalties or incentives for performance. In our opinion, the company's unregulated cash flow from its sister company, Envida Community Energy Inc., is not material to the ratings.

Financial Risk: Inter mediate

We assess GHESI's stand-alone financial risk profile as "intermediate". For GHESI, we use the low-volatility table, reflecting the "very low" industry risk associated with regulated utilities and the supportive regulatory framework.

We do not expect the company to undergo another cost-of-service hearing and rate reset until 2016. During this IRM period, we expect rates to be adjusted annually by inflation minus a productivity factor. In our base-case scenario, we expect AFFO-to-debt to range from 14%-17%.

Although we have assumed that GHESI will continue to invest in rate-base growth that exceeds depreciation, we expect it will largely fund the growth with a mix of internally generated cash flow, cash on

hand, and drawings on its revolver. We do not expect the company to increase leverage to match levels that the regulator prescribes during the current IRM period. We expect the utility's dividend policy to be stable, at the greater of C\$3 million or 50% of net income (adjusted for movements in regulated assets and liabilities).

Liquidity: Adequate

GHESI's liquidity is "adequate," in our view. We expect that liquidity sources will be sufficient to cover uses more than

1.1x over the next 12 months. We expect that in the event of a 10% decline in earnings, the company's sources of funds would still exceed its uses. In our view, GHESI has sound relationships with its banks and generally prudent financial risk management.

Principal Liquidity Sources		Principal Liquidity Uses		
•	Projected FFO of C\$11 million in 2014 Committed credit facility, with C\$10 million available that matures in August 2014. The company is renewing its credit facility by another year, such that it matures in August 2015. We expect that the company will be able to renew its credit facility before the maturity date	 Nondeferrable annual capex of C\$5 million-C\$7 million Dividends of about C\$3 million 		

Government Influence

In accordance with our criteria for government-related entities, our view of a "low" likelihood of extraordinary government support is based on our assessment of:

- "Limited importance" role as the monopoly owner and operator of the regulated electricity distribution company in Guelph, given the province has oversight of electricity regulation and that the utility role could be provided by a private enterprise
- "Limited" link with Guelph, given our view that, in a stress scenario, although the city might provide some temporary liquidity support, it would be more likely to sell the utility than to support it in the long term with taxpayer dollars

The low likelihood of extraordinary government support has no rating enhancement on the 'a' standalone credit profile.

Ratings Score

Snapshot Corporate

Credit Rating A/Stable/--

Business risk: Excellent

Country risk: Very low

Industry risk: Very low

Competitive position:

Strong

Financial risk: Inter mediate

Cash flow/Leverage: Intermediate

Anchor: a

Modifiers

Diversification/Portfolio effect: Neutral (no impact)

Capital structure: Neutral (no

impact) Liquidity: Adequate (no

impact) Financial policy: Neutral

(no impact)

Management and governance: Satisfactory (no impact)

Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a

Likelihood of government support: Low (no impact)

Related Criteria And Research

Related Criteria

Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014 Corporate Methodology, Nov. 19, 2013

Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Business And Financial Risk Matrix

	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent			a+/a			
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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