OSHAWA PUC NETWORKS INC.

Response to Board Staff Interrogatory 5.0-Staff-33

Ref: Exhibit 5, page 2-3

OPUCN requests that “the Long-Term Debt rate used for all long-term deemed debt, funded and unfunded, be the weighted average of rates applicable to funded debt for OPUCN; and that such annual adjustments incorporate the actual market-based cost of any new debt issuances since this original filing.”

When OPUCN makes its annual update, will it include new Long Term Debt incurred at the rate which this debt carries, if it is lower than the current long term debt rate released by the OEB in November of each year? If not, will the OEBs deemed long term debt rate apply?

Response:

OPUCN is proposing that the Long-Term Debt rate be the weighted average of:

- Applicable rates to non-affiliate funded debt; and
- The Board’s deemed rate to affiliate funded debt plus unfunded debt.

Yes, OPUCN will include new Long Term Debt incurred at the rate which this debt carries.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 5.0-Energy Probe-55

Ref: Exhibit 5, pages 2-3

OPUCN is requesting an annual adjustment for the return on equity, short term debt and long term debt based on the figures on any Board revisions to these parameters.

If the Board were to change the deemed capital structure for distributors, would this change also be reflected in the annual adjustment mechanism, if and when it took place?

Response:

Yes.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 5.0-Energy Probe-56

Ref: Exhibit 5, page 5-6

OPUCN estimates an issuance of approximately $12.3 million in long term debt in 2015.

a) Has OPUCN issued any of this debt to date in 2015? If yes, please provide details and provide a copy of the loan arrangement.

b) Has OPUCN entered into any negotiations related to the 2015 long term debt? If yes, please provide a summary of those negotiations to date.

Response:

a) OPUCN has not issued any 2015 long-term debt to date. Pending completion of its borrowing plans, OPUCN has been utilising its line of credit arrangement. The maximum borrowed on this line to date has been $11.0 million to date, with $0.8m the balance at year end 2014. OPUCN has also utilised short term borrowings from its affiliates, with $5.0 million owed at year end 2014.

b) OPUCN is in preliminary discussions however, there is nothing to report at this time.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 5.0-Energy Probe-57

Ref: Exhibit 5, Tables 5-2 & 5-12

Table 5-2 shows an amount of $2,554,000 in affiliate loans repaid in 2014. However, Table 5-12 shows no reduction in the balance of the affiliate loan of $23,064,000. Please explain.

Response:

The $2.6 million relates to short term affiliate loans owed at December 31, 2013, which were forecast to be repaid in 2014. As per 5-Energy Probe-56, OPUCN increased its short term affiliate loans and the balance at December 31, 2014 was $5.0 million.

The $23.0 million affiliate loan is considered long term debt and repayment is not expected during the plan term.

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 5.0-Energy Probe-58

Ref: Exhibit 5, Table 5-13

a) Please update Table 5-13 to reflect any additional actual debt issued in 2015 to date.

b) What are the expected terms of the two TD Bank loans shown?

c) Has OPUCN investigated the option of borrowing from Infrastructure Ontario? If not, why not? If yes, please explain why OPUCN forecasts loans from TD Bank.

d) Please provide the current rates available from Infrastructure Ontario for the terms of the loans requested in part (b) above.

Response:

a) None issued to date in 2015.

b) Unknown at this time. Please refer to 5.0-Energy Probe-56.

c) Yes. However, the requirement for 100% ownership by city/municipality means this option could be problematic in the current environment where the Ontario government has signalled it is open to removing barriers that have prevented private investment in the province’s electricity distribution business.

d) Rates on Infrastructure Ontario can be found using the following link.

http://www.infrastructureontario.ca/Templates/RateForm.aspx?ekfrm=2147483942&langtype=1033

OSHAWA PUC NETWORKS INC.

Response to Energy Probe Research Foundation (Energy Probe) Interrogatory 5.0-Energy Probe-59

Ref: Exhibit 5, Appendix 5-1

a) The loan agreement shown in Appendix 5-1 is between the TD Bank and Oshawa Power & Utilities Corporation. Please provide the corresponding loan agreement between Oshawa Power & Utilities Corporation and OPUCN.

b) What is the interest payment frequency associated with the loan from Oshawa Power & Utilities Corporation to OPUCN? Please provide the interest payment dates for this loan.

Response:

a) The loan agreement is attached following response to part b). This loan was originally directly with the City of Oshawa, but was assigned to Oshawa Power (parent of OPUCN) in 2005.

b) The interest payment frequency is monthly, paid just before the end of each month.

ASSIGNMENT AGREEMENT

THIS AGREEMENT is made this 19th day of December, 2005 among:

OSHAWA POWER AND UTILITIES CORPORATION

(“**OPUC**")

OF THE FIRST PART

- and –

THE CORPORATION OF THE CITY OF OSHAWA

(the "**City**")

OF THE SECOND PART

WHEREAS as partial consideration for the transfer of certain property, Oshawa PUC Networks Inc. (“**WiresCo**”) became indebted to The Corporation of the City of Oshawa (the “**City**”) (the “**Debt**”) and, as evidence of the Debt executed and delivered to the City a promissory note dated as of November 1, 2000, a true and complete copy of which is attached hereto as Schedule “A” (the "**Note**");

AND WHEREAS in accordance with the provisions of the Note, the Debt, and, accordingly the principal amount of the Note was subsequently reduced to $23,064,000 to reflect the actual value of the transferred property;

AND WHEREAS the City wishes to sell to OPUC, and OPUC wishes to purchase from the City, the Debt and the Note, on the terms and conditions set out herein;

NOW THEREFORE for good and valuable consideration, including the payment by OPUC to the City of the amount of $23,064,000, the receipt and sufficiency of which are hereby acknowledged by each party, the parties agree as follows:

1. The City hereby grants, bargains, sells, assigns, transfers, conveys and sets over unto OPUC, its successors and assigns, all right, title and interest of the City in and to the Note and the Debt.

2. The City represents and warrants to OPUC as follows:

   (a) the recitals hereto are true, accurate and complete;

   (b) the Note has not been amended and is in full force and effect;

   (c) it has the right, power and authority to enter into this Agreement and to sell all of its right, title and interest in and to the Note and the Debt to OPUC; and

(d) it has done no act to sell, assign, transfer, hypothecate, pledge or otherwise encumber the Note or the Debt.

3. The City covenants and agrees with OPUC, that it will from time to time and at all times hereafter, upon every reasonable request of OPUC, make, do and execute or cause and procure to be made, done and executed all such further acts, deeds or assurances as may be reasonably required by OPUC.

4. This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts together shall constitute one and the same agreement. This Agreement may be executed by facsimile, and any signature contained hereon by facsimile shall be deemed to be equivalent to an original signature for all purposes.

5. This Agreement is binding upon the parties hereto, and their respective successors and assigns; "successors" includes any corporation resulting from the amalgamation of a corporation with any other corporation.

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF this Agreement has been executed and delivered by parties hereto under the hands of their duly authorized representatives, respectively.

OSHAWA POWER AND UTILITIES CORPORATION

by:
name: Atul Mahajan
title: CFO

by:
name: Jeff Rosenthal
title: CEO

THE CORPORATION OF THE CITY OF OSHAWA

by:
name: John Gray
title: Mayor

by:
name: Sandra Kranc
title: City Clerk

ACKNOWLEDGEMENT

The undersigned hereby acknowledges notice of the assignment by the City to OPUC of all right, title and interest of the City in the Note and the Debt and all benefits thereunder and hereby agrees to remit all further payments in respect of the Note and the Debt to OPUC.

Dated this 19th day of December, 2005.

OSHAWA PUC NETWORKS INC.

by:
name: Atul Mahajan
title: CFO

by:
name: Jeff Rosenthal
title: CEO

SCHEDULE "A"

Note

See attached

DATED as of the 1st day of November, 2000.

OSHAWA PUC NETWORKS INC.

Per:

Authorized Signing Officer

Authorized Signing Officer

SCHEDULE "A"

DEFINITIONS

"Established Rate" means the interest rate which the Ontario Energy Board or its successor may, from time to time, permit regulated distribution corporations to recover for rate making purposes or such other interest rate established by the City, from time to time, and communicated in writing to WiresCo.

"Interest Commencement Date" means, the later of (i) the date of opening of the Ontario electricity market as announced by the Minister of Energy and (ii) the date that the initial electricity distribution rate application of Oshawa Public Utilities Commission or its successor to the Ontario Energy Board for the period commencing after January 1, 2000 is approved and the rates requested in such application become effective or such other date as may be specified in writing by the City to WiresCo.

OSHAWA PUC NETWORKS INC.

Response to Greater Oshawa Chamber of Commerce (GOCC) Interrogatory 5.0-GOCC-13

Tables 5-13, 5-14, 5-15, 5-16, 5-17 indicate a 7 year debt instrument from 2012 at a rate of 3.57% and new debt of $12.2 million in 2015 in two tranches. The first tranche is dated Mar-2015 and the second is forecasted for September 2015.

a) Has Oshawa PUC procured the first tranche of long-term debt for 2015? If so, please provide details including a copy of the agreement. If not, when will such debt be procured?

b) Has Oshawa PUC procured the second tranche of long-term debt for 2015? Please provide an update as to the status of the debt?

c) Please provide a list of any sources considered by Oshawa PUC for the forecasted long-term debt rate of 4.77%?

d) Please explain the rationale as to why Oshawa PUC used the current weighted average of rates applicable to debt funded for Oshawa PUC.

e) What would be the impact on the revenue requirement if the forecasted long-term debt was 4.25%?

f) Does Oshawa PUC complete a competitive process prior to awarding new long-term debt?

Response:

a) No. Please see response to 5.0-SEC-35 part a).

b) No.

c) The 4.77% is the OEB current deemed long-term debt rate.

d) Using a weighted average is standard procedure. The OEB models leading to calculation of revenue requirement require the input of a single long-term debt rate – using a weighted average is the most appropriate input.

e) This would reduce the weighted average debt rate used in the calculations, leading to reductions in revenue requirement as shown below.

Year	2015	2016	2017	2018	2019
Weighted Long-Term Debt Rate	4.55%	4.59%	4.60%	4.61%	4.62%
Revised Weighted Long-Term Debt Rate	4.44%	4.41%	4.39%	4.38%	4.38%
Reduction in Revenue Requirement	$63	$114	$140	$162	$174

f) Yes. Please see response to 5.0-SEC-35 part d).

OSHAWA PUC NETWORKS INC.

Response to School Energy Coalition (SEC) Interrogatory 5.0-SEC-35

[Ex.5, p.5-11]

With respect to new long-term debt issued within the test period:

a) To date, has the Applicant issued any new debt in 2015? If so, please provide details. If not, please provide details of when it expects to do so.

b) For the purposes of setting 2015 rates, what is the forecasted long-debt rate for new issuances in 2015?

c) For the purposes of Appendix 2-OB, the Applicant has forecasted using TD Bank loans for new long-term debt insurances for 2015-2019. Does this reflect the expectation that the source of debt will be TD Bank?

d) Please describe how the Applicant chooses new source of long-term debt.

Response:

a) No. OPUCN currently expects to issue new debt before the end of 2015. OPUCN will be filing updated Appendices as part of this interrogatory process to reflect the current position.

b) For any forecast (or unfunded) debt, the rate used is the OEB deemed rate of 4.77% unless rate is locked in etc.

c) It is expected but not definitive at this time.

d) OPUCN has and will continue to engage in discussions with multiple institutions including other banks, lifeco's and Infrastructure Ontario. OPUCN bases its decisions on a number of variables including rates, term, administrative burden and prior relationships.

OSHAWA PUC NETWORKS INC.

**Response to School Energy Coalition (SEC)
Interrogatory 5.0-SEC-36**

[Ex.5]

Please provide the Applicant's regulated actual ROE, including supporting calculations, for each year between 2012-2014.

Response:

See below:

Template for Calculation of ROE on a Deemed Basis							
OSHAWA PUC NETWORKS INC.			Year Ended 31-Dec-2012		Year Ended 31-Dec-2013		Year Ended 31-Dec-2014
Regulatory Net Income Calculation:							
Accounting net income	A		$ 3,516		$ 2,902		$ 3,098
Remove:							
LRAM	B		$ 250		$ 193		
CDM imcentives	C				$ 90		$ 138
Adjustment to interest expense - for deemed debt	D (=W)		$ 248		$ 487		$ 600
Regulated net income	E = A-B-C-D		$ 3,017		$ 2,133		$ 2,360
Deemed Equity Calculation:							
Rate Base:							
Cost of power	F		$ 96,182		$ 102,012		$ 103,266
Operating expenses	G		$ 11,240		$ 11,210		$ 11,208
Total	H = F + G		$ 107,422		$ 113,222		$ 114,474
Working capital allowance %			15%		15%		15%
Total working capital allowance	J		$ 16,113		$ 16,983		$ 17,171
Fixed Assets							
Opening balance - regulated fixed assets (NBV)		$ 60,440		$ 69,527		$ 76,201	
Closing balance - regulated fixed assets (NBV)		$ 69,527		$ 76,201		$ 82,729	
Average regulated fixed assets	K	$ 64,983	$ 64,983	$ 72,864	$ 72,864	$ 79,465	$ 79,465
Total rate base	L = J + K		**$ 81,097**		**$ 89,847**		**$ 96,636**
Regulated deemed short-term debt	M	4%	$ 3,244	4%	$ 3,594	4%	$ 3,865
Regulated deemed long-term debt	N	56%	$ 45,414	56%	$ 50,314	56%	$ 54,116
Regulated deemed equity	P	40%	$ 32,439	40%	$ 35,939	40%	$ 38,654
			$ 81,097		$ 89,847		$ 96,636
Regulated Rate of Return on Deemed Equity							
	Q = E / P		**9.30%**		**5.93%**		**6.11%**
ROE% from most recent cost of service application	R		**9.42%**		**9.42%**		**9.42%**
Difference - maximum deadband 3%	S = Q - R		**(0.12)%**		**(3.49)%**		**(3.31)%**
Interest adjustment on deemed debt:							
Regulated deemed short-term debt - as above		$ 3,244	6.67%	$ 3,594	6.67%	$ 3,865	6.67%
Regulated deemed long-term debt - as above		$ 45,414	93.33%	$ 50,314	93.33%	$ 54,116	93.33%
		$ 48,658	100.00%	$ 53,908	100.00%	$ 57,982	100.00%
Short-term debt rate		2.08%	0.14%	2.08%	0.14%	2.08%	0.14%
Long-term debt rate		5.01%	4.68%	5.01%	4.68%	5.01%	4.68%
Average debt rate			4.81%		4.81%		4.81%
Regulated deemed debt - as above		$ 48,658		$ 53,908		$ 57,982	
Weighted average interest rate		4.81%		4.81%		4.81%	
Deemed interest		$ 2,343		$ 2,595		$ 2,792	
Interest expense as per the OEB trial balance		$ 2,005		$ 1,933		$ 1,975	
Difference		$ 338		$ 662		$ 816	
Utility tax rate		26.50%		26.50%		26.50%	
Tax effect on interest expense		$ (90)		$ (176)		$ (216)	
Interest adjustment on deemed debt:		$ 248		$ 487		$ 600	

Note: Tax affected adjustments were made to accounting net income for LRAM, CDM incentives and deemed interest.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 5.0-VECC-42

Reference: E5/

a) Please explain the rationale for including a cost of capital adjustment given that overall market return is exogenous to the utility. That is, why under an incentive based RRFE rate plan should the calculation of rates be determined on the basis of what other, unrelated companies are achieving in the market?

b) Please describe what OPUCN means by the “fair return standard.” Specifically address the question of why not adjusting the cost of capital component of a cost of service rate formula would violate this standard.

Response:

a) A utility’s cost of capital is a genuine cost to the company. As recognized by the Board in the *Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities* – Issued on December 11, 2009, the “fair return standard” requires that economically regulated rates be set so as to allow a utility a reasonable opportunity to earn a “fair return” on its shareholders’ equity. “Fair return” is defined, essentially, as the return that would be earned for investment in an undertaking of similar risk to that of the business of the regulated utility. Setting return on equity in this fashion allows the utility to attract and retain the capital necessary to investment in the utility as required and appropriate to serve ratepayers. All of the OEB’s methodologies for setting rates recognize that changes in costs, including the changes in the cost of capital, should be considered in establishing rates, in order to ensure that the “fair return standard” is met.

The Board’s cost of capital policy contemplates determination of an appropriate set of cost of capital parameters every year. During a 3rd or 4th generation price cap plan, the cost of capital is escalated along with the other cost/rate parameters of the utility in accord with inflation.

b) Please see response to part a).

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 5.0-VECC-43

Reference: E5/

Please provide the actual and regulated rates of return for each year 2012 through 2014.

Response:

Please see response to interrogatory 6.0-SEC-43.

OSHAWA PUC NETWORKS INC.

Response to Vulnerable Energy Consumers Coalition (VECC) Interrogatory 5.0-VECC-44

Reference: E5/

a) OPUCN appears to be significantly underleveraged as compared to the Board allowed capital structure. For example, in 2015 it is forecasting to have outstanding $37.9 million in long-term debt of an allowed structure of $58.8 million. Please explain the reason for this.

b) Please explain why during a period of historically low interest rates OPUCN is not seeking to raise the entire forecasted capital program debt in 2015.

Response:

a) OPUCN follows prudent treasury management practices, which include practice of borrowings based on forecast of our cash flows and not a forecast of interest rates.

b) OPUCN has forecast additional debt in its Custom IR rate application to finance elevated levels of capital spending beginning in 2015 as per OPUCN's Distribution System Plan.

OSHAWA PUC NETWORKS INC.

**Response to Vulnerable Energy Consumers Coalition (VECC)
Interrogatory 5.0-VECC-45**

Reference: E5/pg.11

Please explain why the rates for all the TD bank loans shown in Table 5-13 are at a rate of 4.77% (also coincidently the Board's current long-term debt default rate) whereas in the accompanying documents these loans appear to be set at different rates ($7 million @ 3.565%; 21 million @ 4.495% etc.).

Response:

OPUCN is proposing that the Long-Term Debt rate be the weighted average of:

- Applicable rates to non-affiliate funded debt; and
- The Board's deemed rate to affiliate funded debt plus unfunded debt.

As a result, non-affiliate debt of $7.0 million (TD Bank) has a rate of 3.565%. All other debt, funded and unfunded are subject to the Board's deemed rate of 4.77%.