

EXHIBIT 5 - COST OF CAPITAL
AND
CAPITAL STRUCTURE
EB-2014-0080

Table of Contents

I.	Cost of Capital and Rate of Return.....	2
1	Ex.5/Tab 1/Sch.1 - Capital Structure	
2	Ex.5/Tab 1/Sch.2 - OEB Appendix 2-OA Capital	
3	Structure / Cost of Capital	
4	Ex.5/Tab 1/Sch.3 - Cost of Capital	

Cost of Capital and Rate of Return

Ex.5/Tab 1/Sch.1 - Capital Structure

HPDC seeks to recover a weighted average cost of capital of 6.48% through rates in the 2015 Test Year. HPDC has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, December 11, 2009 in determining the cost of capital.

In calculating the cost of capital, HPDC has used the OEB's deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the OEB's letter of November 14, 2015, for the allowed return on equity ("ROE").

HPDC understands that the OEB will most likely update the ROE for 2015 at a later date, and therefore commits to updating its Application to reflect the OEB's updated Cost of Capital Parameters for May 1, 2015 applications and as new information is issued.

1 HPDC's cost of capital for 2015 has been calculated as 6.48%, as shown in the table below.

2 **Table 5.0 – Overview of Capital Structure**

Particulars	Cost Rate
	(%)
Debt	
Long-term Debt	4.77%
Short-term Debt	2.16%
Total Debt	4.60%
Equity	
Common Equity	9.30%
Preferred Shares	
Total Equity	9.30%
Total	6.48%

3
4 The Cost of Capital parameters are consistent with the letter issued by the OEB on November
5 14, 2015 which sets the values as indicated below.

Cost of Capital Parameter	Value for 2015 Applications for rate changes in 2015
ROE	9.30%
Deemed LT Debt rate	4.77%
Deemed ST Debt rate	2.16%

6
7 Retirements of debt or preference shares and buy-back of common shares; and Short-Term
8 Debt, Long-Term Debt, preference shares as well as common share offerings do not apply to
9 HPDC as the HPDC does not issued any preference shares and/or common equity shares.

1 **Ex.5/Tab 1/Sch.2 - OEB Appendix 2-OA Capital Structure / Cost of Capital**

2 Appendix 2-OA below presents Appendix 2-OA which shows the Cost of Capital for all required
3 historical years, the bridge year and the Test year.

Year: 2015

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,545,574	4.77%	\$73,724
Short-term Debt	4.00% (1)	\$110,398	2.16%	\$2,385
Total Debt	60.0%	\$1,655,972	4.60%	\$76,108
Equity				
Common Equity	40.00%	\$1,103,981	9.30%	\$102,670
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$1,103,981	9.30%	\$102,670
Total	100.0%	\$2,759,953	6.48%	\$178,779

Year: 2014

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,246,285	5.87%	\$73,157
Short-term Debt	4.00% (1)	\$89,020	2.07%	\$1,843
Total Debt	60.0%	\$1,335,306	5.62%	\$75,000
Equity				
Common Equity	40.00%	\$890,204	9.85%	\$87,685
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$890,204	9.85%	\$87,685
Total	100.0%	\$2,225,510	7.31%	\$162,685

Year: 2013

Particulars	Capitalization Ratio		Cost Rate	Return
-------------	----------------------	--	-----------	--------

	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,283,559	5.87%	\$75,345
Short-term Debt	4.00% (1)	\$91,683	2.07%	\$1,898
Total Debt	60.0%	\$1,375,242	5.62%	\$77,243
Equity				
Common Equity	40.00%	\$916,828	9.85%	\$90,308
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$916,828	9.85%	\$90,308
Total	100.0%	\$2,292,069	7.31%	\$167,550

Year: 2012

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,155,949	5.87%	\$67,854
Short-term Debt	4.00% (1)	\$82,568	2.07%	\$1,709
Total Debt	60.0%	\$1,238,517	5.62%	\$69,563
Equity				
Common Equity	40.00%	\$825,678	9.85%	\$81,329
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$825,678	9.85%	\$81,329
Total	100.0%	\$2,064,195	7.31%	\$150,893

Year: 2011

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,079,534	5.87%	\$63,369
Short-term Debt	4.00% (1)	\$77,110	2.07%	\$1,596
Total Debt	60.0%	\$1,156,643	5.62%	\$64,965
Equity				
Common Equity	40.00%	\$771,095	9.85%	\$75,953

Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$771,095	9.85%	\$75,953
Total	100.0%	\$1,927,738	7.31%	\$140,918

Year: 2010

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$1,045,177	5.87%	\$61,352
Short-term Debt	4.00% (1)	\$74,655	2.07%	\$1,545
Total Debt	60.0%	\$1,119,832	5.62%	\$62,897
Equity				
Common Equity	40.00%	\$746,555	9.85%	\$73,536
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$746,555	9.85%	\$73,536
Total	100.0%	\$1,866,387	7.31%	\$136,433

1

2

Ex.5/Tab 1/Sch.3 - Cost of Capital

This evidence summarizes the capital structure, method and cost of financing HPDC's capital requirements for the 2015 Test Year.

Capital Structure

The proposed cost rates for cost of capital in 2015 are presented on the last page of Ex.5/Tab 1/Sch.2. The rates shown for short-term debt and return on equity are those set out in the Board's letter of November 14, 2014, Cost of Capital Parameter Updates for 2015 Cost of Service Applications.

The calculation of the proposed rate for long-term debt is set out in Attachment 1 to this schedule, based on the weighted average cost of debt in 2014. There were \$1,250,000 in outstanding debt instruments at the end of 2013.

HPDC's current OEB-approved capital structure for rate-making purposes is 60% debt and 40% equity. HPDC intends to maintain the same capital structure in the 2015 Test Year. This capital structure was confirmed by the OEB in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (The "Board Report"). The 60% debt component is comprised of 4.0% deemed short-term debt and 56.0% deemed long-term debt.

1 **Return on Equity**

2 HPDC has used a ROE of 9.30% in the 2015 Test Year as established by the Board for cost of
3 service applications with a May 1 2015 implementation date. HPDC recognizes that the ROE
4 will be updated in accordance with Board guidelines and as such commits to updating the cost
5 capital parameters as new information is made available.

6 **Weighted Average Cost of Debt**

7 HPDC proposes a Long Term Debt cost rate for the 2015 Test Year of 4.77% which is the
8 consistent with the OEB prescribed cost of capital parameters published in the Board's letter of
9 November 14, 2014, Cost of Capital Parameter Updates for 2015 Cost of Service Applications.

10 **Long Term Debt**

11 HPDC's sole Long Term Debt instruments is a promissory note issued at \$1.8M back in 2001.
12 The Promissory Note is presented at the next page. The actual debt rate is set at 12%. The
13 utility has no control over this rate.

14 There is no profit nor loss on the redemption of debt.

15 **Non-For Profit**

16 The utility is not a cooperative.

PROMISSORY NOTE

Principal: \$1,800,000.00

June 1 , 2001

FOR VALUE RECEIVED, the undersigned hereby acknowledges itself indebted and promises to pay to or to the order of The Corporation of the Town of Hearst (the "Holder") the principal sum of One Million Eight Hundred Thousand Dollars (\$1,800,000.00) in lawful money of Canada at the head office of the undersigned, which sum shall be payable on demand.

For each calendar year, or part thereof, in which this promissory note is outstanding, the undersigned will pay to the Holder in arrears interest in like money on the unpaid portion from time to time of the principal, in an amount equal to the lesser of (i) 12% per annum, calculated monthly, on the unpaid portion from time to time of the principal; and (ii) the undersigned's Net Income for such calendar year or part thereof. For the purposes of this promissory note, "Net Income" means, for any particular period, the amount which would, in accordance with generally accepted accounting principles, be classified on the consolidated income statement of the undersigned for such period as the net income of the undersigned.

Interest as aforesaid for any particular calendar year or part thereof shall become due and be paid on the 1st day of the third month of the following calendar year.

The undersigned may prepay the said principal sum in whole or in part at any time or from time to time without notice, penalty or bonus. All payments received shall be applied first in satisfaction of any accrued but unpaid interest and then against any outstanding principal amount.

The obligations of the undersigned hereunder shall be absolute and unconditional and shall not be subject to any counter-claim, set-off or other claim whatsoever of the undersigned against the Holder. This promissory note shall enure to the benefit of the Holder and his heirs, executors, administrators, personal legal representatives and assigns and shall be binding upon the undersigned and his heirs, executors, administrators and personal legal representatives.


The undersigned hereby waives the benefits of division and discussion, demand and presentment for payment, notice of non-payment, protest and notice of protest of this promissory note.

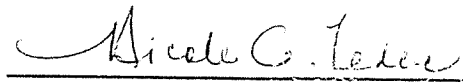
This promissory note shall be governed by the laws of the Province of Ontario and shall not be changed, modified, discharged or cancelled orally or in any manner other than by agreement in writing signed by the Holder or its successors or assigns.

IN WITNESS WHEREOF the undersigned has executed this promissory note as of the day and year first above written.

**HEARST POWER DISTRIBUTION
COMPANY LIMITED**

Per:


Name: JACQUES LEDUC c/s
Title: CHAIRMAN


NICOLE C. LEDUC
GENERAL MANAGER

Jan 31/02

1 **Short Term Debt**

2 HPDC has used a short-term debt rate of 2.16% for the 2015 Test Year as established by the
3 Board for cost of service applications with a May 1, 2015 implementation date. HPDC
4 recognizes that the short-term debt rate could be updated at a later date consistent with the
5 OEB's guidelines.

6 HPDC's does not have any Short Term Debt instruments:

7 OEB Appendix 2-OB Cost of Debt presented at the next section details HPDC's long-term debt.

8

1

Appendix 2-OB Cost of Debt Instruments

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,450,000	0.12	\$ 174,000.00	No specified terms of re-payment
Total							\$ 1,450,000	0.12	\$ 174,000.00	

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,450,000	0.12	\$ 174,000.00	No specified terms of re-payment
Total							\$ 1,450,000	0.12	\$ 174,000.00	

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,700,000	0.12	\$ 204,000.00	No specified terms of re-payment
Total							\$ 1,700,000	0.12	\$ 204,000.00	

Year 2012

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,700,000	0.12	\$ 204,000.00	No specified terms of re-payment
Total							\$ 1,700,000	0.12	\$ 204,000.00	

Year 2011

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,700,000	0.12	\$ 204,000.00	No specified terms of re-payment
Total							\$ 1,700,000	0.12	\$ 204,000.00	

Year 2010

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Note Payable	Town of Hearst	Affiliated	Fixed Rate	1-Jan-00	N/A	\$ 1,700,000	0.12	\$ 204,000.00	No specified terms of re-payment
Total							\$ 1,700,000	0.12	\$ 204,000.00	