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1 Cost of Capital and Rate of Return

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

3 Wasaga Distribution Inc. (“WDI”) seeks to recover a weighted average Cost of Capital of 6.48%
4 through rates in the 2016 Test Year. WDI has followed the Report of the Board on Cost of
5 Capital for Ontario’s Regulated Utilities, December 11, 2009 in determining the cost of capital.

6 In calculating the Cost of Capital, WDI has used the OEB’s deemed capital structure of 56%
7 long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the
8 OEB’s letter of November 20, 2014, for the allowed return on equity (“ROE”).

9 WDI understands that the OEB may update the ROE for 2016 at a later date, and therefore
10 commits to updating its Application to reflect the OEB’s updated Cost of Capital Parameters for
11 May 1, 2016 applications and as new information is issued.

1 WDI's cost of capital for 2016 has been calculated as 6.48%, as shown in the table below:

2 **Table 5.1: 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	0
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, 2014 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 WDI as the WDI 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 the capital structure for the 2012 Board Approved and 2016
 3 Test year.

4 **Appendix 2-OA – Cost of Capital & Debt Structure**

Year: 2016

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$7,897,291	4.77%	\$376,701
2	Short-term Debt	4.00%	\$564,092	2.16%	\$12,184
3	Total Debt	60.0%	\$8,461,383	4.60%	\$388,885
	Equity				
4	Common Equity	40.00%	\$5,640,922	9.30%	\$524,606
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$5,640,922	9.30%	\$524,606
7	Total	100.0%	\$14,102,305	6.48%	\$913,491

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Board Approved 2012

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$7,147,190	4.41%	\$315,191
2	Short-term Debt	4.00%	\$510,514	2.08%	\$10,619
3	Total Debt	60.0%	\$7,657,704	4.25%	\$325,810
	Equity				
4	Common Equity	40.00%	\$5,105,136	9.12%	\$465,588
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$5,105,136	9.12%	\$465,588
7	Total	100.0%	\$12,762,840	6.20%	\$791,398

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1 **Ex.5/Tab 1/Sch.3 - OEB Appendix 2-OB Cost of Debt Instruments**

2 Appendix 2-OB below presents capital structure for all required historical years, the bridge year
 3 and the Test year.

4 **Appendix 2 – OB - Debt Instruments**

Year 2016

Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹
Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$3,593,269	4.77%	\$ 171,398.93
Total						\$3,593,269	4.77%	\$ 171,398.93

Year 2015

Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹
Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$3,593,269	4.12%	\$ 148,042.68
Total						\$3,593,269	4.12%	\$ 148,042.68

Year 2014

Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹
Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$3,593,269	4.12%	\$ 148,042.68
Total						\$3,593,269	4.12%	\$ 148,042.68

Year 2013

Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹
Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$3,593,269	4.12%	\$ 148,042.68
Total						\$3,593,269	4.12%	\$ 148,042.68

Year 2012

Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹
Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$3,593,269	4.41%	\$ 158,463.16
Total						\$3,593,269	4.41%	\$ 158,463.16

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1 **Ex.5/Tab 1/Sch.4 - Cost of Capital**

2 This evidence summarizes the capital structure, method and cost of financing WDI's capital
3 requirements for the 2016.

4 **Capital Structure:**

5 The proposed cost rates for cost of capital in 2016 are presented on the last page of Ex.5/Tab
6 1/Sch.2. The rates shown for short-term debt and return on equity are those set out in the
7 Board's letter of November 20, 2014, Cost of Capital Parameter Updates for 2015 Cost of
8 Service Applications.

9 WDI is requesting a return on long term debt for the 2016 Test Year of 4.77%. This rate of
10 return represents the cost of WDI's one long term note payable to with its shareholder the Town
11 of Wasaga Beach for \$3,593,269.

12 WDI's current OEB Approved capital structure for rate-making purposes is 60% debt and 40%
13 equity. WDI intends to maintain the same capital structure in the 2016 Test Year. This capital
14 structure was confirmed by the OEB in the Report of the Board on Cost of Capital for Ontario's
15 Regulated Utilities dated December 11, 2009 (The "Board Report"). The 60% debt component
16 is comprised of 4.0% deemed short-term debt and 56.0% deemed long-term debt.

1 **Return on Equity:**

2 WDI has used a ROE of 9.30% in the 2016 Test Year as established by the Board for Cost of
3 Service applications with a May 1, 2016 implementation date. WDI recognizes that the ROE will
4 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 **Long Term Debt:**

7 WDI proposes a Long Term Debt cost rate for the 2016 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 20, 2014 Cost of Capital Parameter Updates for 2016 Cost of Service Applications.

10 WDI's has one Long Term Debt instrument:

- 11 • Note Payable – On October 20, 2000 WDI signed a resolution under the Electricity
12 Act with the Town of Wasaga Beach for a Note Payable in the amount of \$3,593,269.

13 WDI's note with the Town of Wasaga Beach can be found in Appendix A of this document.

14 **Short Term Debt:**

15 For the purposes of preparing this application, WDI has used the cost of capital parameters
16 issued by the Board on November 20, 2014 for 2015 COS rate applications which reflect a
17 deemed short-term debt rate of 2.16%. WDI will update the deemed short- term debt rate to
18 reflect future Board issued cost of capital parameters for rates with effective dates in 2016 prior
19 to issuance of the Board's decision for WDI's application. WDI's Short Term Debt instruments
20 are summarized below.

- 21 • Letter of Credit: WDI has obtained a Letter of Credit from a Canadian bank in the
22 amount of \$785,604 that has been issued in favour of the IESO. This Letter of Credit
23 financially secures the Corporation's electricity purchases from the IESO, who has
24 not drawn on this credit instrument.

1 WDI is aware that the IESO may review its prudential requirements and undertakes to update
2 this evidence at a later date (if needed) for any changes in these requirements authorized by the
3 IESO.

4 WDI does not forecast that it will redeem any debt and has not issued any preference shares;
5 hence WDI does not record either a profit or a loss on redemption of debt and/or preference
6 shares. WDI is not forecasting any new debt in the bridge and test years.

7 OEB Appendix 2-OB Cost of Debt Instruments presented on page 5 of this Exhibit details WDI's
8 long-term debt.

9

10 **Not-For-Profit:**

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12 Note that WDI is not a cooperative and as such, all requirements related to a not-for-profit
13 organization do not apply.

14

15 **Notional Debt:**

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17 WDI's only debt instrument currently resides with WDI's shareholder (affiliate) and is a variable
18 debt rate dependent on WDI's approved debt rate. Consequently, the debt that is the difference
19 between actual and deemed debt (notional) would follow the same variable methodology WDI
20 applies for the loan owed to WDI's shareholder. WDI is applying for a notional debt rate of
21 4.77% for this application.

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1 Appendix

2 List of Appendices

Appendix A	Long Term Note Payable to Town of Wasaga Beach
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1 Appendix A – Long Term Note Payable to the Town of Wasaga Beach

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APPENDIX 1 **CERTIFICATE OF PASSING OF RESOLUTION**
UNDER SECTION 159.1 OF THE ELECTRICITY ACT, 1998

Name of Municipality: **The Corporation of the Town of Wasaga Beach**
 Name of Local Distribution Company: **Wasaga Distribution Inc.**

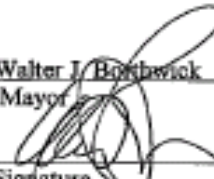
Direct and Indirect Beneficial Ownership of and Voting Rights in Local Distribution Company.
 Specify shareholders and % of ownership at each level of the corporation structure (see subsection 159.1 (3) of Act). If there is insufficient space on this form, attach additional page(s).
Geosands Inc. hold 100 common shares of Wasaga Distribution Inc. being all of the issued common shares of Wasaga Distribution Inc. The Corporation of the Town of Wasaga Beach is the sole beneficial owner of all of the issued common shares of Geosands Inc. As a result, the Corporation of the Town of Wasaga Beach has direct beneficial ownership of all of the voting shares of a corporation that owns all of the voting shares of Wasaga Distribution Inc.

Attached is a copy of the resolution passed by the municipality affirming that the local distribution company should continue to operate on a for-profit basis.

The municipality affirms that the projected return on common equity to be earned by the local distribution company, on which the rates approved by the Ontario Energy Board are based, is 9.88%

Provide details of all financial arrangements involving the municipality and the local distribution company. If there is insufficient space on this form, attach additional page(s).

Date of Arrangement	Description of Arrangement	Term	Principal Amount	Annual Interest Payable
October 20, 2000	Promissory Note	Demand	\$3,593,269.00	December 31, Gov't of Canada 10 year bond rate

Walter J. Borwick
 Mayor

 Signature Feb 18/03
 Date

Eric E. Colkingwood
 Clerk

 Signature Feb 18/03
 Date

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The Corporation of the
Town of Wasaga Beach

MOVED BY  February 11th, 2003

SECONDED BY  RESOLUTION #2003-03- 04

RESOLVED THAT:

WHEREAS Section 142 of *The Electricity Act 1998*, required municipalities to convert their existing electricity businesses into corporations incorporated under the *Business Corporations Act* within two years of its enactment, and

WHEREAS in 2000, Wasaga Distribution Inc. (Wasaga Hydro) was formed, being a *Business Corporations Act* corporation established under Section 142 of *The Electricity Act, 1998*, for the purpose of converting the Town's existing electricity business in accordance with *The Electricity Act, 1998*, and

AND WHEREAS Wasaga Distribution Inc. (Wasaga Hydro) has continued as a business and continues to operate as a highly efficient utility for the benefit of the taxpayers of the Town of Wasaga Beach; and

WHEREAS on December 9th, 2002, Bill 210, the *Electricity, Pricing, Conservation and Supply Act, 2002*, received third reading and Royal Assent; and

WHEREAS Bill 210 amends *The Electricity Act, 1998*, by adding Section 159.1, to require a municipality that beneficially owns voting securities in a corporation incorporated under Section 142 of *The Electricity Act, 1998*, to pass a resolution affirming that the corporation should continue to be incorporated as a *Business Corporations Act* corporation within 90 days of Bill 210 receiving Royal Assent; and

WHEREAS Bill 210 also provides several consequences of failure to pass the required resolution and submit the necessary certificate certifying the passing of the resolution, which consequences include a prohibition against declaring or paying dividends for the benefit of any person; a prohibition against any kind of disposal of the assets or liabilities of the electricity company; prohibitions against entering into certain contractual arrangements; and an application being deemed to have been made to the Ontario Energy Board for a rate order that incorporates a 0% return on Common equity which effectively converts the corporation into a Not-For-Profit business; and

NOW THEREFORE BE IT RESOLVED THAT

1. The Corporation of the Town of Wasaga Beach hereby affirms that Wasaga Distribution Inc. (Wasaga Hydro) should continue to be incorporated as a *Business Corporations Act* company as provided in Subsection 142(1) of *the Electricity Act, 1998*.

2. The Town Clerk be required to prepare and file with the Minister of Energy the necessary certificates required under the new Section 159.1 as provided for in Bill 210.

CARRIED 