EXHIBIT 5 - COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Ontario Energy Board Staff Interrogatory 5-Staff-82

Ref: Exhibit 5, Tab 1, Schedule 1, p. 3 and Attachment 3 – Affiliated Debt

Interrogatory:

On page 3, Kingston Hydro states that the interest rate on its long term affiliated debt of $10.9M remains at 5.87% as per a promissory note dated November 28, 2012.

a) Please explain why Kingston Hydro is not applying the OEB's current deemed long-term rate of 4.77% to its affiliated debt, given that the note might be called within 366 days, which is within the 2016 test year period.

Response:

a) Kingston Hydro has applied the interest rate of 5.87%, being the deemed rate ordered by the Board in EB-2010-0136.

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Ontario Energy Board Staff Interrogatory 5-Staff-83

Ref: Exhibit 5, Tab 1, Schedule 1, p. 4-5

Interrogatory:

In Exhibit 5, Kingston Hydro provided details on its applied for long-term debt rate for the 2016-2020 period, proposing the OEB deemed debt rate as of April 25, 2015 of 4.77%.

a) Please confirm that Kingston Hydro is requesting a long-term debt rate of 4.77% for each of the new debt instruments to be issued between 2016 and 2020.

b) If yes, explain why.

c) Does Kingston Hydro expect to approach Infrastructure Ontario for any of the debt instruments during the custom IR period 2016-2020?

d) Please explain why Kingston Hydro should not update its debt portfolio annually in conjunction with its annual cost of capital parameter updates.

Response:

a) Confirmed

b) Kingston Hydro is requesting this rate for new debt as it is the known long term debt rate issued by the Board at the time of filing the application.

c) Kingston Hydro will consider negotiating with Infrastructure Ontario for future debt requirements.

d) Kingston Hydro applied for long term debt of 4.77% in this application for its debt issuance for 2016-2020 in order to try to match its costs for its capital program to its financing costs.

EXHIBIT 5 - COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Energy Probe Interrogatory 5-Energy Probe-33

Ref: Exhibit 5, Tab 1 Schedule 1, page 1

Interrogatory:

The evidence indicates that Kingston proposes to adjust the cost of capital parameters when the Board updates them for rates effective in the 2016 calendar year and each year of the custom IR period.

Does Kingston propose to adjust the deemed capital structure if the Board were to adjust the deemed capital structure as part of the update to the cost of capital parameters at some point during the custom IR period?

Response:

Kingston proposes to adjust the deemed capital structure if the Board were to adjust the deemed capital structure as part of its annual Custom IR update to the cost of capital parameters.

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Energy Probe Interrogatory 5-Energy Probe-34

Ref: Exhibit 5, Tab 1 Schedule 1, pages 4-5

Interrogatory:

a) Please confirm that for each of the proposed long term debt issuances shown on pages 4 and 5 for 2017 through 2020 (i.e. excluding the 2015 and 2016 issuances), the rates to be used will be updated based on the OEB deemed long term debt rate in effect in the fall of the year before the issuance as part of the annual update. For example, the $1.0 million forecast for December 1, 2017 would be updated to the OEB's deemed long term debt rate as set by the Board in the fall of 2016. If this cannot be confirmed, please explain how the rate for the December 1, 2017 issue would be set.

b) Is the amount of each issuance in each year to be set as part of this application, or can the amount, and term, be adjusted each year as part of the annual update, in addition to the rate?

c) As part of each annual update, will the cost of the actual embedded debt be updated to reflect actual issuances and costs for the previous years? As an example, when the long term debt rate for 2017 is determined in the fall of 2016, will the cost of the embedded debt reflect the actual issuance and rates associated with 2015 mid-December loan and/or the December 1, 2016 loan? Please explain fully.

Response:

a) Kingston Hydro has requested for the long term debt rate to be approved for those debt issuances in 2017-2020 based on the OEB deemed debt rate in effect as of April 25, 2015.

b) Kingston Hydro has requested for the amounts to be set as part of this application.

c) Kingston Hydro has not proposed any annual updates for long term debt during the term of the Custom IR process.

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Energy Probe Interrogatory 5-Energy Probe-35

Ref: Exhibit 5, Tab 1 Schedule 1, page 4

__Interrogatory__:

a) Will the forecast for the 2016 long term debt of $3.5 million to be executed on December 1, 2016 be updated based on the OEB deemed long term debt rate to be released in the fall of this year?

b) Is Kingston proposing any update for the mid-December 2015 issuance of $5 million from the April 25, 2015 Infrastructure Ontario rate of 3.39%?

__Response__:

a) Kingston proposes to update rates for new debt if available.

b) Kingston proposes to update its mid-December issuance of $5 million to the current Infrastructure Ontario rate of 3.61% (as of September 2, 2015).

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Energy Probe Interrogatory 5-Energy Probe-36

Ref: Exhibit 5, Tab 1 Schedule 1, Attachment 3

Interrogatory:

a) What was the Board’s deemed long term debt rate when the Amended Promissory Note was signed on November 28, 2012?

b) Please confirm that the Amended Promissory Note is callable within the custom IR period.

c) Can Kingston Hydro pay off the affiliate debt if it so choses to do so?

d) If the response to (c) is yes, what are the penalties, if any, associated with repayment of the loan?

e) If the response to (c) is yes, has Kingston Hydro estimated the savings that could be had by replacing the affiliate loan with third party debt at the lower rates currently available in the marketplace today? If not, why not?

f) Please provide a copy of the demand promissory note earlier executed by Kingston Hydro Corporate to which the amended promissory note refers.

Response:

a) The Board's deemed long term debt rate when the Amended Promissory Note was signed on November 28, 2012 was 4.41%. However, it is important to note that Kingston Hydro was ordered by the Board[1] to use a 5.87% deemed long term debt rate for that debt instrument, being the the deemed debt rate that was in place at the time of the resolution of that instrument on July 6, 2010.

b) Confirmed.

c) Yes.

d) None.

e) Kingston Hydro has not estimated the savings that could be achieved by replacing affiliate loan with third party debt as Kingston Hydro's total debt is projected to increase throughout the Custom IR term and 3rd party financing will be used for the purpose of new financing requirements. In addition, Kingston Hydro's affiliate debt does not require any principal repayments.

f) As noted in the evidence attached at Exhibit 5, Tab 1 Schedule 1, Attachment 3, and as put on the record in EB-2010-0136, Kingston Hydro was not able to locate an originating promissory note. This fact was mentioned in the Decision and Order referenced in the footnote below.

[1] EB-2010-0136, Decision and Order dated June 23, 2011.

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Vulnerable Energy Consumers Coalition Interrogatory 5-VECC-34

Reference: E5/Appendix 2-OB

Interrogatory:

a) Appendix 2-OB shows Kingston Hydro acquiring 30 year long-term debt in the amount of $291,667. Please explain why such a nominal amount of long-term debt would be procured in 2016.

b) Does Kingston Hydro have any debt that is procured by/through Kingston Utilities?

Response:

a) Debt of $3.5 million is planned to be procured effective December 1, 2016. The average outstanding debt related to this loan for 2016 would be $291,667.

b) All Kingston Hydro debt is procured by the officers of Kingston Hydro.

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

Response to Vulnerable Energy Consumers Coalition Interrogatory 5-VECC-35

Reference: E5/

Interrogatory:

Please provide a detailed description on the anticipated method of the annual cost of capital adjustment. Please specify the expected timing of the annual adjustment filing, the actual and forecast debt that would be utilized and the rate base (actual or plan forecast) that would be used to calculate the cost of capital.

Response:

Kingston Hydro has requested the long term debt rate be set as part of this proceeding.

The short term debt rate and return on equity have been requested to be updated during the annual Customer IR update process.

The RRWF would be utilized to update the revenue requirement. By way of example, for the first annual update for January 1, 2017 rates, Kingston Hydro anticipates submitting its annual update by August 31, 2016.

The starting point for rate base for 2017 – would be based on the decisions rendered in this proceeding. Average fixed assets for 2017 would be utilized per the Decision in this proceeding. The starting point for controllable expenditures would be the 2016 OM&A plus property taxes. Kingston Hydro would then adjust its 2016 controllable expenses by the GDP-IPI less the productivity factor for its cohort. Cost of power would then be updated based on revised RPP prices and Hydro One’s updated retail transmission and connection rates. Cost of capital parameters would be updated for the latest known short term debt and common equity cost rates. The Pils model would then be updated and a revised revenue requirement calculated. Rates would then be adjusted based on the 2016 methodology as decided in this proceeding.