

1

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

CONTENTS

| | | |
|----|--|----------|
| 2 | OVERVIEW | 2 |
| 3 | Capital Structure | 2 |
| 4 | Return on Equity | 2 |
| 5 | Cost of Debt: Long Term | 2 |
| 6 | Cost of Debt: Short Term | 4 |
| 7 | CAPITAL STRUCTURE AND COST OF CAPITAL | 5 |
| 8 | Weighted Average Cost of Long-Term Debt | 6 |
| 9 | Profit or Loss on Redemption of Debt or Preferred Shares | 7 |
| 10 | APPENDIX 5 - A – AMENDED AND RESTATED PROMISSORY NOTE WITH THE TOWN | |
| 11 | OF GRIMSBY | |
| 12 | APPENDIX 5 - B - TD LOAN DETAILS | |

1 **EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE**

2 **OVERVIEW**

3 The purpose of this evidence is to summarize the method and cost of financing capital
4 requirements for the 2016 Test Year.

5 **Capital Structure**

6 Grimsby Power has a current deemed capital structure of 56% long term debt with a return
7 of 4.02%, 4% short term debt with a return of 2.08% and 40% equity with a return of
8 9.42% as approved in the 2012 cost of service (“COS”) rate decision EB-2011-0273.

9 Grimsby Power has prepared this 2016 COS Application in accordance with the Board’s
10 guidelines provided in the *Report of the Board on Cost of Capital for Ontario’s Regulated*
11 *Utilities* (the “2010 Report”) issued on December 11, 2010. For the purposes of preparing
12 this Application, Grimsby Power has used the cost of capital parameters issued by the Board
13 on October 15, 2015 for 2016 COS rate applications for rates with effective dates in 2016.

14 **Return on Equity**

15 As outlined above, for the purposes of preparing this Application Grimsby Power has used
16 the cost of capital parameters issued by the Board on October 15, 2015 for 2016 COS rate
17 applications which reflects a return on equity of 9.19%.

18 **Cost of Debt: Long Term**

19 Grimsby Power is requesting a return on long term debt for the 2016 Test Year of 4.37%.
20 This rate of return represents the weighted average cost of long term debt for a promissory
21 note, a SWAP loan agreement with Toronto-Dominion Bank, and loans for funding capital
 projects.

1 Grimsby Power has a promissory note with the Town of Grimsby, its municipal shareholder,
2 for \$5,782,746. The promissory note was issued April 1, 2001 with no set term. Currently,
3 the actual interest rate on the promissory note is 5.01%. The promissory note is classified
4 as affiliate debt and is callable since it contains a condition that the principal shall be
5 payable upon 12 months' notice at any given time. A copy of the Amended and Restated
6 Promissory Note is included as Appendix 5-A.

7 In accordance with the 2010 Report, Grimsby Power is requesting a return on the portion of
8 long term debt that the promissory represents for the 2016 Test Year reflecting the Board's
9 deemed long term debt rate. For the purposes of preparing this Application, Grimsby Power
10 has used the cost of capital parameters issued by the Board on October 15, 2015 for 2016
11 COS rate applications which reflect a deemed long term debt rate of 4.54%.

12 Niagara West Transformation Corporation entered into a SWAP agreement with The
13 Toronto-Dominion Bank (TD) in 2004 with an effective date of April 30, 2004. The SWAP
14 agreement is for \$6,000,000 at a rate of 6.35% (5.60% Contract IRS rate + 0.75% BA
15 Stamping Fee) for a 20 year term maturing on December 31, 2024. The principle balance
16 at the end of the 2016 Test Year is \$3,452,000. The average principal amount owing in
17 2016 on this loan will be \$3,605,000. Grimsby Power amalgamated with Niagara West
18 Transformation Corporation as of October 1, 2015. As a result of the amalgamation the
19 SWAP agreement was transferred to the amalgamated entity – Grimsby Power.

20 On March 31, 2011 Grimsby Power entered into an operating loan agreement with TD
21 Commercial Banking for \$1,600,000 to finance the Smart Meter Project as well as a small
22 portion of its distribution capital projects. The financing agreement is a 15 year floating,
23 amortizing, principle and interest term loan at the Prime Rate. On May 01, 2011 the
24 operating loan was converted to a term loan at a rate of Prime Rate plus 0.50% per annum
25 (3.33%). The principle balance at the end of the 2016 Test Year is \$1,069,876. The
26 average principal amount owing in 2016 on this loan is \$1,117,728.

1 Grimsby Power entered into a financing agreement with TD Commercial Banking on
2 December 4, 2012 for \$305,426 to finance the purchase of an aerial device (bucket truck).
3 This financing agreement is a 15 year floating, amortizing, principle and interest term loan
4 at a rate of 3.50% per annum. The principle balance at the end of the 2016 Test Year is
5 \$238,879. The average principal amount owing in 2016 on this loan is \$247,618.

6 Grimsby Power entered into a financing agreement with TD Commercial Banking on
7 December 12, 2012 for \$1,200,000 to finance capital projects and outstanding liabilities to
8 the developers as of result of executing the economic evaluation protocol within the
9 Distribution System Code. This financing agreement is a one year, floating, non-amortizing,
10 interest-only agreement at a fixed rate of 2.50% per annum. On January 10, 2014 the
11 term loan was renewed at a rate of 2.25% and increased to 2,670,000. On January 10,
12 2015 the term loan renewal was for a rate of 2.315%. Grimsby Power will renew this loan
13 in January of 2016. The rates of this loan are not known at this time.

14 On November 3, 2015 Grimsby Power entered into a financing agreement with TD
15 Commercial Banking for \$600,000 to finance capital projects and outstanding liabilities to
16 the developers. This financing agreement is a one year, floating, non-amortizing, interest
17 only agreement at a fixed rate of 2.01% per annum. Grimsby Power will renew this loan in
18 January of 2016. The rates of this loan are not known at this time.

19 A copy of the Loan Details issued by TD Bank is included as Appendix – B.

20 **Cost of Debt: Short Term**

21 For the purposes of preparing this Application, Grimsby Power has used the cost of capital
22 parameters issued by the Board on October 15, 2015 for 2016 COS rate applications which
23 reflect a deemed short term debt rate of 1.65%.

CAPITAL STRUCTURE AND COST OF CAPITAL

1 Below is Appendix 2-OA that demonstrates the elements of the capital structure and cost of
 2 capital from the 2012 Board-approved and 2016 Test Year. For 2016, the weighted average
 3 cost of capital of 6.19% will be applied to the rate base of \$24,959,518, which is explained
 4 in detail in Exhibit 2, to determine a return on rate base of \$1,544,665 that is included in
 5 the proposed revenue requirement.

Appendix 2-OA Capital Structure and Cost of Capital 2012 & 2016

Year: 2012

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|----------|---------------------|----------------------|---------------------|--------------|--------------------|
| | | (%) | (\$) | | |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$9,319,126 | 4.53% | \$422,156 |
| 2 | Short-term Debt | 4.00% (1) | \$665,652 | 2.08% | \$13,846 |
| 3 | Total Debt | 60.0% | \$9,984,778 | 4.37% | \$436,002 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$6,656,519 | 9.42% | \$627,044 |
| 5 | Preferred Shares | | \$ - | | \$ - |
| 6 | Total Equity | 40.0% | \$6,656,519 | 9.42% | \$627,044 |
| 7 | Total | 100.0% | \$16,641,297 | 6.39% | \$1,063,046 |

Year: 2016

| Line No. | Particulars | Capitalization Ratio | | Cost Rate | Return |
|----------|---------------------|----------------------|---------------------|--------------|--------------------|
| | | (%) | (\$) | | |
| | Debt | | | | |
| 1 | Long-term Debt | 56.00% | \$13,977,330 | 4.37% | \$610,680 |
| 2 | Short-term Debt | 4.00% (1) | \$998,381 | 1.65% | \$16,473 |
| 3 | Total Debt | 60.0% | \$14,975,711 | 4.19% | \$627,153 |
| | Equity | | | | |
| 4 | Common Equity | 40.00% | \$9,983,807 | 9.19% | \$917,512 |
| 5 | Preferred Shares | | \$ - | | \$ - |
| 6 | Total Equity | 40.0% | \$9,983,807 | 9.19% | \$917,512 |
| 7 | Total | 100.0% | \$24,959,518 | 6.19% | \$1,544,665 |

Weighted Average Cost of Long-Term Debt

Outlined below is a reproduction of Appendix 2-OB listing Grimsby Power's long term debt instruments and weighted average cost of long term debt from 2012 to the 2016 Test Year.

Appendix 2-OB Debt Instruments 2012 to 2016

Year

| Row | Description | Lender | Affiliated or Third-Party Debt? | Fixed or Variable-Rate? | Start Date | Term (years) | Principal (\$) | Rate (%) ² | Interest (\$) ¹ | Additional Comments, if any |
|-------|-------------------------------|--------------------|---------------------------------|-------------------------|------------|--------------|----------------|-----------------------|----------------------------|-----------------------------|
| 1 | Promissory Note | Town of Grimsby | Affiliated | Fixed Rate | 1-Apr-01 | 20 | \$ 5,782,746 | 5.01% | \$ 289,716 | |
| 2 | Smart Meter/Capital Financing | TD Commercial Bank | Third-Party | Fixed Rate | 31-Mar-11 | 15 | \$ 1,481,752 | 3.41% | \$ 50,513 | |
| Total | | | | | | | \$ 7,264,498 | 4.68% | \$ 340,229 | |

Year

| Row | Description | Lender | Affiliated or Third-Party Debt? | Fixed or Variable-Rate? | Start Date | Term (years) | Principal (\$) | Rate (%) ² | Interest (\$) ¹ | Additional Comments, if any |
|-------|-------------------------------|--------------------|---------------------------------|-------------------------|------------|--------------|----------------|-----------------------|----------------------------|-----------------------------|
| 1 | Promissory Note | Town of Grimsby | Affiliated | Fixed Rate | 1-Apr-01 | 20 | \$ 5,782,746 | 5.01% | \$ 289,716 | |
| 2 | Smart Meter/Capital Financing | TD Commercial Bank | Third-Party | Fixed Rate | 31-Mar-11 | 15 | \$ 1,391,257 | 3.34% | \$ 46,455 | |
| 3 | Truck Loan | TD Commercial Bank | Third-Party | Fixed Rate | 4-Dec-12 | 15 | \$ 297,502 | 3.48% | \$ 10,347 | |
| 4 | Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 12-Dec-12 | 1 | \$ 1,200,000 | 2.50% | \$ 30,000 | |
| Total | | | | | | | \$ 8,671,506 | 4.34% | \$ 376,518 | |

Year

| Row | Description | Lender | Affiliated or Third-Party Debt? | Fixed or Variable-Rate? | Start Date | Term (years) | Principal (\$) | Rate (%) ² | Interest (\$) ¹ | Additional Comments, if any |
|-------|-------------------------------|--------------------|---------------------------------|-------------------------|------------|--------------|----------------|-----------------------|----------------------------|-----------------------------|
| 1 | Promissory Note | Town of Grimsby | Affiliated | Fixed Rate | 1-Apr-01 | 20 | \$ 5,782,746 | 5.01% | \$ 289,716 | |
| 2 | Smart Meter/Capital Financing | TD Commercial Bank | Third-Party | Fixed Rate | 31-Mar-11 | 15 | \$ 1,303,078 | 3.34% | \$ 43,523 | |
| 3 | Truck Loan | TD Commercial Bank | Third-Party | Fixed Rate | 4-Dec-12 | 15 | \$ 281,418 | 3.51% | \$ 9,875 | |
| 4 | Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 12-Dec-12 | 1 | \$ 2,670,000 | 2.25% | \$ 60,075 | |
| Total | | | | | | | \$ 10,037,242 | 4.02% | \$ 403,188 | |

Year

| Row | Description | Lender | Affiliated or Third-Party Debt? | Fixed or Variable-Rate? | Start Date | Term (years) | Principal (\$) | Rate (%) ² | Interest (\$) ¹ | Additional Comments, if any |
|-------|------------------------------------|--------------------|---------------------------------|-------------------------|------------|--------------|----------------|-----------------------|----------------------------|-----------------------------|
| 1 | Promissory Note | Town of Grimsby | Affiliated | Fixed Rate | 1-Apr-01 | 20 | \$ 5,782,746 | 5.01% | \$ 289,716 | |
| 2 | Smart Meter/Capital Financing | TD Commercial Bank | Third-Party | Fixed Rate | 31-Mar-11 | 15 | \$ 1,211,917 | 3.34% | \$ 40,491 | |
| 3 | Truck Loan | TD Commercial Bank | Third-Party | Fixed Rate | 4-Dec-12 | 15 | \$ 264,807 | 3.51% | \$ 9,294 | |
| 4 | Capital Loan & Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 12-Dec-12 | 1 | \$ 2,670,000 | 2.32% | \$ 61,944 | |
| 5 | Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 26-Oct-15 | 1 | \$ 600,000 | 2.01% | \$ 2,010 | |
| 6 | NWTC Loan | TD Commercial Bank | Third-Party | Fixed Rate | 1-Jan-04 | 21 | \$ 3,900,000 | 6.31% | \$ 246,253 | |
| Total | | | | | | | \$ 14,429,470 | 4.50% | \$ 649,708 | |

Year

| Row | Description | Lender | Affiliated or Third-Party Debt? | Fixed or Variable-Rate? | Start Date | Term (years) | Principal (\$) | Rate (%) ² | Interest (\$) ¹ | Additional Comments, if any |
|-------|------------------------------------|--------------------|---------------------------------|-------------------------|------------|--------------|----------------|-----------------------|----------------------------|-----------------------------|
| 1 | Promissory Note | Town of Grimsby | Affiliated | Fixed Rate | 1-Apr-01 | 20 | \$ 5,782,746 | 4.54% | \$ 262,537 | |
| 2 | Smart Meter/Capital Financing | TD Commercial Bank | Third-Party | Fixed Rate | 31-Mar-11 | 15 | \$ 1,117,728 | 3.34% | \$ 37,360 | |
| 3 | Truck Loan | TD Commercial Bank | Third-Party | Fixed Rate | 4-Dec-12 | 15 | \$ 247,618 | 3.52% | \$ 8,718 | |
| 4 | Capital Loan & Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 12-Dec-12 | 1 | \$ 2,670,000 | 2.32% | \$ 61,944 | |
| 5 | Economic Evaluation | TD Commercial Bank | Third-Party | Fixed Rate | 3-Nov-15 | 1 | \$ 600,000 | 2.01% | \$ 12,060 | |
| 6 | NWTC Loan | TD Commercial Bank | Third-Party | Fixed Rate | 1-Jan-04 | 21 | \$ 3,605,000 | 6.38% | \$ 230,060 | |
| Total | | | | | | | \$ 14,023,091 | 4.37% | \$ 612,679 | |

1 **Profit or Loss on Redemption of Debt or Preferred Shares**

2 There is no profit or loss on redemption of debt or preferred shares.

**APPENDIX 5 - A - AMENDED AND RESTATED PROMISSORY NOTE WITH THE TOWN
OF GRIMSBY**

December 18, 2012

AMENDED AND RESTATED PROMISSORY NOTE

Due: February 1, 2020

FOR VALUE RECEIVED, Grimsby Power Incorporated (the "**Corporation**") unconditionally promises to pay to, or to the order of, The Corporation of the Town of Grimsby (the "**Town**") the sum of \$5,782,746.01 (Five Million, Seven Hundred and Eighty-two Thousand, Seven Hundred and Forty-six Dollars and one cent) (the "**Principal Sum**") and to pay interest from January 1, 2012 at the rate of 5.01% per annum ("**Interest Rate**"), which Interest Rate will be automatically amended from time to time to be consistent with any interest rate approved by the Ontario Energy Board ("**Board**") in connection with the then current decision and order issued by the Board approving the electricity distribution rates that the Corporation is permitted to recover. Interest at the aforesaid rate shall be calculated annually, not in advance, and payable to the Town on July 1st and January 1st of each year.

Any shortfall in payment described shall accrue to the Principal Sum of this note and shall be assessed interest at the rate as described herein.

The principal and interest of this Promissory Note shall be in Canadian dollars without set-off or counterclaim.

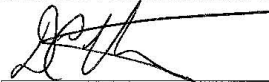
This note is not assignable by the Town without the consent of the Corporation.

This note amends and restates the Promissory Note issued by the Corporation to the Town on December 18, 2007 with effect January 1, 2004.

Made at Grimsby, Ontario this 18th day of December, 2012.

GRIMSBY POWER INCORPORATED

Per:



Doug Curtiss
Chief Executive Officer

APPENDIX 5 - B - TD LOAN DETAILS



40 King Street
St. Catharines, Ont.
L2R 3H4

Tel: 905-685-7631
Fax : 905-685-7053

GRIMSBY POWER INC.
Loan Summary – Loan #9206681-03

| | |
|--------------------|--|
| Description: | Capital Loan & Economic Valuation |
| Lender: | TD Commercial Banking |
| Current Amount: | \$2,670,000.00 |
| Start Date: | December 12, 2012 (\$1,200,000.00 tranche) |
| Refinance Date: | January 10, 2014 (new tranche of \$1,470,000.00 added) |
| Contractual Term: | 3 years |
| Rate Term: | 1 year, non-amortizing, interest-only |
| Interest Rate: | 2.315% |
| Rate Renewal date: | January 10, 2016 |
| Amortization: | n/a |

GRIMSBY POWER INC.
Loan Summary – Loan #9206681-12

| | |
|--------------------|--|
| Description: | Smart Meter / Capital Financing |
| Lender: | TD Commercial Banking |
| Current Amount: | \$1,173,605.15 |
| Start Date: | March 31, 2011 (\$1,600,000.00 tranche) |
| Refinance Date: | April 20, 2012 (\$1,493,333.32 refinanced) |
| Contractual Term: | 5 years |
| Rate Term: | 5 years |
| Interest Rate: | 3.33% |
| Rate Renewal date: | April 1, 2017 |
| Amortization: | 15 years to April 1, 2026 |

GRIMSBY POWER INC.
Loan Summary – Loan #9206681-13

| | |
|--------------------|---|
| Description: | Truck Loan |
| Lender: | TD Commercial Banking |
| Current Amount: | \$257,827.65 |
| Start Date: | December 4, 2012 (\$305,426.00 tranche) |
| Refinance Date: | n/a |
| Contractual Term: | 5 years |
| Rate Term: | 4 years |
| Interest Rate: | 3.50% |
| Rate Renewal date: | December 1, 2016 |
| Amortization: | 15 years to December 1, 2027 |

**GRIMSBY POWER INC.
Loan Summary – Loan #9206681-16**

| | |
|--------------------|---|
| Description: | Economic Evaluation |
| Lender: | TD Commercial Banking |
| Current Amount: | \$600,000.00 |
| Start Date: | November 3, 2015 (\$600,000.00 tranche) |
| Refinance Date: | n/a |
| Contractual Term: | 3 years |
| Rate Term: | 1 year, non-amortizing, interest-only |
| Interest Rate: | 2.01% |
| Rate Renewal date: | November 3, 2016 |
| Amortization: | n/a |

**GRIMSBY POWER INC.
Loan Summary – Loan #9520695-04**

| | |
|--------------------|---|
| Description: | Niagara West Transformation Corp. loan |
| Lender: | TD Commercial Banking |
| Current Amount: | \$3,806,000.00 |
| Start Date: | April 30, 2004 (\$6,000,000.00 tranche) |
| Refinance Date: | n/a |
| Contractual Term: | Interest Rate Swap (IRS) fixed until January 31, 2025 |
| Rate Term: | Rate is fixed until January 31, 2025 |
| Interest Rate: | 5.60% Contract IRS rate + 0.75% BA Stamping Fee = 6.35% |
| Rate Renewal date: | n/a |
| Amortization: | 21 years to January 31, 2025 |