

COST OF CAPITAL

5-Staff-40

Ref: Exh 5, page 5

The application states that, “HHHI has a promissory note with The Corporation of The Town of Halton Hills, its municipal shareholder, in the amount of \$16,141,970. The promissory note was renewed on December 4, 2014 with a maturity date of December 31, 2020.”

- a) HHHI has requested that the deemed long term debt rate apply to the promissory note. As the note has only been renewed for six years, please explain why the deemed long term debt rate, which is typically applied to 30 year debt, is applicable in this case.
- b) The promissory note at Appendix 5-A states that, “Interest shall be payable by Halton Hills Hydro Inc. to The Corporation of the Town of Halton Hills, or assign, at a rate of interest per annum, compounded annually not in advance, prescribed, from time to time, by the Treasurer of The Corporation of the Town of Halton Hills...” What is the current prescribed rate?

Response:

- a) The Long – Term Note payable to the Town of Halton Hills was created in recognition of the requirement in Bill 35 (Electricity Act, 1998), whereby effective November 1, 2000, certain assets and liabilities of the Halton Hills Hydro-Electric Commission transferred to Halton Hills Hydro Inc. in exchange for shares and a long-term note payable. The note payable has no fixed terms of repayment and is deemed to be long term.
- b) The current prescribed rate is 4.12%.

5-Staff-41

Ref: Exh 5, page 11

The summary of 2016 test year debt instruments lists a “Capital Loan – 2016” with a third party with a start date of August 31, 2016. What is the status of this proposed debt?

Response:

During the course of the year, HHHI will typically cash flow CapEx utilizing current operating cash. On a quarterly basis, HHHI will undertake to review CapEx and replenish operating cash as required, thus matching CapEx with long term financing.

Based on the 2016 Capital Expenditure Plan of \$8,210,960, HHHI is forecasting the requirement of a new term loan in the amount of \$5,195,000. The new term loan, referred to as “Capital Loan – 2016” will replenish HHHI’s projected operating cash flow requirement.

The status of this proposed debt is anticipated to be in place August 2016.

5-Staff-42

Ref: Exh 5, page 8

Please update the cost of capital per the OEB letter of October 15, 2015 regarding Cost of Capital Parameter Updates for 2016 Applications.

Response:

The updated 2016 cost of capital as per the OEB letter of October 15, 2015 is presented below in Tables IRR - 70 and IRR - 71.

Table IRR - 70 : 2016 Test Year Debt Instruments

Promissory Note		Y	Fixed		16,141,970		4.54%	2016	732,845
Smart Meter Term Loan	TD Bank	N	Fixed	August 30, 2011	2,723,885	11	2.16%	2016	61,946
Capital Term Loan #1	TD Bank	N	Fixed	February 22, 2013	1,680,024	12	2.16%	2016	37,398
Capital Term Loan #2	TD Bank	N	Fixed	August 15, 2013	2,154,379	12	2.15%	2016	47,691
Capital Term Loan #3	TD Bank	N	Fixed	August 15, 2014	2,713,161	13	2.16%	2016	60,233
Capital Loan - 2015	TD Bank	N	Fixed	August 31, 2015	3,924,000	14	2.23%	2016	87,505
Capital Loan - 2016	TD Bank	N	Fixed	August 31, 2016	5,195,000	15	2.23%	2016	38,722
									0
									0
									0
									0
2012 Total Long Term Debt					19,836,347	Total Interest Cost for 2012		706,724	
						Weighted Debt Cost Rate for 2012		3.56%	
2013 Total Long Term Debt					23,999,288	Total Interest Cost for 2013		808,167	
						Weighted Debt Cost Rate for 2013		3.37%	
2014 Total Long Term Debt					26,536,182	Total Interest Cost for 2014		865,735	
						Weighted Debt Cost Rate for 2014		3.26%	
2015 Total Long Term Debt					30,171,863	Total Interest Cost for 2015		929,674	
						Weighted Debt Cost Rate for 2015		3.08%	
2016 Total Long Term Debt					34,532,419	Total Interest Cost for 2016		1,066,340	
						Weighted Debt Cost Rate for 2016		3.09%	

Table IRR - 71 : Cost of Capital and Capital Structure – 2016 Test Year

Deemed Capital Structure for 2016				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	34,802,914	56.00%	3.09%	1,074,693
Unfunded Short Term Debt	2,485,922	4.00%	1.65%	41,018
Total Debt	37,288,837	60.00%		1,115,711
Common Share Equity	24,859,225	40.00%	9.19%	2,284,563
Total equity	24,859,225	40.00%		2,284,563
Total Rate Base	62,148,062	100.00%	5.47%	3,400,274

5-Energy Probe-38

Ref: Exhibit 5

Please update the evidence, including all relevant tables in Exhibit 5, to reflect the Board's Cost of Capital Parameter Updates for 2016 Applications dated October 15, 2015.

Response:

Please refer to 5-Staff-42.

5-VECC-28

Reference: E5

- a) Please provide the actual and regulated rates of return for each of 2012 through 2014. Please provide the forecast returns for 2015.

Response:

- a) Please refer to 4-Staff-36.