

Ottawa River Power Corporation
Exhibit 5
Response to Interrogatories

Cost of Capital

5-Staff-69

Ref: Exhibit 5, p. 3 of 17, Appendix 2-OA and RRWF

On page 3, OPRC calculated its cost of capital based on 2015 cost of capital parameters.

OEB staff notes that in the RRWF, ORPC used the following parameters.

Cost of Capital

Long-term debt Cost Rate (%)	7.25%
Short-term debt Cost Rate (%)	2.07%
Common Equity Cost Rate (%)	8.98%
Preferred Shares Cost Rate (%)	

- a) As a result ORPC shows a weighted cost of capital of 7.73%. OEB staff cannot reconcile the ROE used in this calculation with the 2015 or 2016 cost of capital parameters or p. 3 of 17 in Exhibit 5. Please reconcile and update the application is necessary.

Response:

The table at page 3/17 was incorrect. The table below show what the actual proposed Cost of Capital should have read.

Table 5.1: Overview of Capital Structure

		2010 Board Approved		2016 Test Year	
	Deemed Capital Structure	Rate		Rate	
Short Term Debt	4%	2.07%		2.07%	
Long Term Debt	56%	7.25%		7.25%	
Equity	40%	9.85%		8.98%	
Total	100%		8.08%		7.73%

OEB staff notes that the OEB updated the cost of capital parameters for distribution rates effective in 2016 in a letter issued on October 15, 2015 are as follows:

Cost of Capital

Long-term debt Cost Rate (%)	4.54%
Short-term debt Cost Rate (%)	1.65%
Common Equity Cost Rate (%)	9.19%

- b) Please update the application and the RRWF to reflect the most recent cost of capital parameters for short-term debt and the ROE.

Response:

The table below shows the updated Cost of Capital based on the Oct 15 report

Particulars	Capitalization Ratio		Cost Rate		Return
	(%)	(\$)	(%)		(\$)
Debt					
Long-term Debt	56.00%	\$6,901,508	7.25%		\$500,359
Short-term Debt	4.00%	(1) \$492,965	1.65%		\$8,134
Total Debt	60.0%	\$7,394,473	6.88%		\$508,493
Equity					
Common Equity	40.00%	\$4,929,649	9.19%		\$453,035
Preferred Shares		\$ -			\$ -
Total Equity	40.0%	\$4,929,649	9.19%		\$453,035
Total	100.0%	\$12,324,122	7.80%		\$961,528

5.0-VECC-36

Reference: E5/pg.16- Agreement

The agreement between the parties, which included ORPC includes the following provision:

- (f) The parties hereto agree that they may adjust the interest rate on the said Promissory Notes at the times and in the manner as set out by the regulation, and in an amount not to exceed the maximum interest rate allowed by any schedule, statute or otherwise as enacted by the Ontario Energy Board or any successor in the Province of Ontario.
- a) Please explain why this provision does not allow, or mandate that the interest rate on the long-term debt to be adjusted to the most recent long-term debt rate established by the Board for affiliated debt (i.e. *“as set out by the regulation....other as otherwise enacted by the Ontario Energy Board”*).

Response:

At the time of Market Opening, the terms of the agreement were set at the prevailing rate of 7.25%. This has since been approved during rebasing in 2006 and in 2010.

While the agreement does say that the parties may adjust, this does not imply that the shareholders are required to adjust. The promissory notes were set on May 1, 2002 and mature in 2023.

5.0-VECC-37

Reference: E5/

a) Please provide ORPC actual and regulated rates of return for each of 2010 through 2015.

Response:

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost of Capital											
Capital Structure¹											
Deemed Short-term Debt Capitalization					4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Deemed Long-term Debt Capitalization	50.0%	50.0%	53.3%	56.7%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%
Deemed Equity Capitalization	50.0%	50.0%	46.7%	43.3%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Preferred Shares											
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Capital Parameters											
Deemed Short-term Debt Rate					2.07%	2.07%	2.07%	2.07%	2.07%	2.07%	1.65%
Long-term Debt Rate (actual/embedded/deemed) ²	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Target Return on Equity (ROE)	9.0%	9.00%	9.00%	9.00%	9.85%	9.85%	9.85%	9.85%	9.85%	9.85%	9.19%
Return on Preferred Shares											
WACC	8.13%	8.13%	8.07%	8.01%	8.08%	8.08%	8.08%	8.08%	8.08%	8.08%	7.80%
Working Capital Allowance											
Working Capital Allowance Rate <i>(% of the sum of Cost of Power + controllable expenses)</i>					15.0%	15.0%	15.0%	15.0%	15.0%	13.0%	7.3%