

Table of Contents

5.0 Cost of Capital and Capital Structure

5.1 Overview of Capital Structure

5.1.1 Capital Structure

Debt Instruments

5.2 Cost of Capital (Return on Equity and Cost of Debt)

5.2.1 Cost of Capital (Return on Equity and Cost of Debt)

Cost of Debt- Long-Term

Cost of Debt- Short-Term

Capital Structure and Cost of Capital

Forecasts of new debt anticipated in the bridge and test years- Financing Plans

Notional Debt

Profit or Loss on Redemption of Debt

5.3 Not-For-Profit Organizations

5.3.1 Not-For-Profit Organizations

List of Attachments

Attachment 5-A – Promissory Note with the City of Brantford

1 **5.0 Cost of Capital and Capital Structure**

2 **5.1 Overview of Capital Structure**

3

4 The purpose of this evidence is to provide an overview of BPI's capital structure and financing plans for
5 the 2017 Test Year. Detailed schedules on capital structure and debt issuances can be found in this
6 Exhibit, Table 5.1-A - Chapter 2 Appendix 2-OA and Table 5.1-B - Chapter 2 Appendix 2-OB. BPI's capital
7 structure for ratemaking purposes and the ensuing evidence has been prepared in accordance with the
8 2016 Filing requirements and on the Report of the Board on Cost of Capital for Ontario's Regulated
9 Utilities (the 2009 Report) issued December 11, 2009.

10 **5.1.1 Capital Structure**

11 BPI has a current deemed capital structure of 4% short-term debt with a return of 2.07%, 56% long-term
12 debt with a return of 4.50% and 40% equity with a return of 8.98% as approved in the 2013 Cost of
13 Service rate decision EB-2012-0109. There have been no material changes in capital structure from 2013
14 to 2017, aside from the forecasted new long-term debt in 2016 which is explained in 2.5.2- Cost of
15 Capital below.

16 BPI has prepared this 2017 Cost of Service Application in accordance with the Board's guidelines
17 provided in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities (the "2009
18 Report") issued on December 11, 2009. For the purposes of preparing this Application, BPI has used the
19 cost of service rate applications for rates with effective dates in 2016. BPI will update its cost of capital
20 parameter to reflect future Board issued cost of capital parameters for rates with effective dates in 2017
21 prior to the issuance of the Board's decision for its Application. BPI proposes no deviation from the
22 Board's cost of capital methodology.

23 Table 5.1-A is a reproduction of Appendix 2-OA that demonstrates the elements of the Capital Structure
24 and Cost of Capital for the 2013 Board-Approved and 2017 Test Year.

1

Table 5.1-A: OEB Chapter 2 Appendix OA

**Appendix 2-OA
 Capital Structure and Cost of Capital**

This table must be completed for the last Board approved year and the test year.

Year: 2013

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)		
	Debt				
1	Long-term Debt	56.00%	\$42,413,235	4.50%	\$1,906,744
2	Short-term Debt	4.00%	\$3,029,517	2.07%	\$62,711
3	Total Debt	60.0%	\$45,442,751	4.33%	\$1,969,455
	Equity				
4	Common Equity	40.00%	\$30,295,168	8.98%	\$2,720,506
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$30,295,168	8.98%	\$2,720,506
7	Total	100.0%	\$75,737,919	6.19%	\$4,689,961

2

**Appendix 2-OA
 Capital Structure and Cost of Capital**

This table must be completed for the last Board approved year and the test year.

Year: 2017

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)		
	Debt				
1	Long-term Debt	56.00%	\$49,520,774	4.13%	\$2,046,891
2	Short-term Debt	4.00%	\$3,537,198	1.65%	\$58,364
3	Total Debt	60.0%	\$53,057,972	3.97%	\$2,105,255
	Equity				
4	Common Equity	40.00%	\$35,371,981	9.19%	\$3,250,685
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$35,371,981	9.19%	\$3,250,685
7	Total	100.0%	\$88,429,953	6.06%	\$5,355,940

3

4

1 **Debt Instruments**

2 Table 5.1-B is a reproduction of Appendix 2-OB listing BPI's long term debt instruments from 2013 to the
 3 2017 Test Year.

4 **Table 5.1-B- OEB Chapter 2 Appendix OB**

**Appendix 2-OB
 Debt Instruments**

This table must be completed for all required historical years, the bridge year and the test year.

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	The Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-11	5	\$ 24,189,168	5.87%	1,419,904	
2	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 3,781,250	5.51%	208,347	
3	Tier 2 Capital Project Borrowing	Royal Bank	Third-Party	Fixed Rate	13-Jun-06	10	\$ 505,250	5.77%	29,153	
4	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-07	25	\$ 2,130,887	5.14%	109,528	
5	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,707,971	4.95%	233,045	
6	Smart meter borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	18-Nov-09	15	\$ 5,412,091	3.46%	187,258	
7	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,982,158	3.90%	155,304	
Total							\$ 44,708,776	0.0523955	2,342,539	

5

**Appendix 2-OB
 Debt Instruments**

This table must be completed for all required historical years, the bridge year and the test year.

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	The Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-11	5	\$ 24,189,168	5.87%	1,419,904	
2	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 3,373,750	5.51%	185,894	
3	Tier 2 Capital Project Borrowing	Royal Bank	Third-Party	Fixed Rate	13-Jun-06	10	\$ 372,583	5.77%	21,498	
4	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-07	25	\$ 2,066,554	5.14%	106,221	
5	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,663,733	4.95%	230,855	
6	Smart meter borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	18-Nov-09	15	\$ 5,121,084	3.46%	177,189	
7	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,909,394	3.90%	152,466	
Total							\$ 43,696,266	0.0524994	2,294,027	

6

**Appendix 2-OB
 Debt Instruments**

This table must be completed for all required historical years, the bridge year and the test year.

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	The Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-11	5	\$ 24,189,168	5.87%	1,419,904	
2	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 2,944,417	5.51%	162,237	
3	Tier 2 Capital Project Borrowing	Royal Bank	Third-Party	Fixed Rate	13-Jun-06	10	\$ 232,417	5.77%	13,410	
4	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,998,872	5.14%	102,742	
5	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,617,278	4.95%	228,555	
6	Smart meter borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	18-Nov-09	15	\$ 4,819,920	3.46%	166,769	
7	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,833,764	3.90%	149,517	
Total							\$ 42,635,837	0.0526115	2,243,135	

7

8

Appendix 2-OB
 Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2016

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	The Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-11	5	\$ 24,189,168	4.34%	1,049,608	
2	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 2,491,250	5.51%	137,268	
3	Tier 2 Capital Project Borrowing	Royal Bank	Third-Party	Fixed Rate	13-Jun-06	10	\$ 83,750	5.77%	4,832	
4	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,927,666	5.14%	99,082	
5	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,568,496	4.95%	226,141	
6	Smart meter borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	18-Nov-09	15	\$ 4,508,246	3.46%	155,985	
7	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,755,156	3.90%	146,451	
8	Land and building	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Oct-16	30	\$ 13,837,800	3.68%	127,308	
	Total						\$ 55,361,532	0.035163	1,946,675	

1

Appendix 2-OB
 Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2017

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	The Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-11	5	\$ 24,189,168	4.20%	1,015,945	
2	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 2,012,583	5.51%	110,893	
3	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,852,754	5.14%	95,232	
4	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,517,238	4.95%	223,603	
5	Smart meter borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	18-Nov-09	15	\$ 4,185,695	3.46%	144,825	
6	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,673,452	3.90%	143,265	
7	General borrowings	Ontario Infrastructure & Lands Corporation	Third-Party	Fixed Rate	1-Oct-16	30	\$ 13,805,274	3.68%	508,034	
	Total						\$ 54,236,164	0.041334	2,241,797	

2

3

1 **5.2 Cost of Capital (Return on Equity and Cost of Debt)**

2 **5.2.1 Cost of Capital (Return on Equity and Cost of Debt)**

3 As outlined above, for the purposes of preparing this Application BPI has used the cost of capital
4 parameters issued by the Board on October 15, 2015 for 2016 COS rate applications which reflects a
5 return on equity of 9.19%. BPI will update the return on equity to reflect future Board issued cost of
6 capital parameters for rates with effective dates in 2017 prior to the issuance of the Board's decision for
7 its Application.

8 **Cost of Debt- Long-Term**

9 BPI is requesting a return on Long Term Debt for the 2017 Test Year of 4.13%. BPI is currently paying a
10 rate of 4.20% on its promissory note with the Corporation of the City of Brantford which was renewed
11 on January 29th 2016.

12 A copy of the promissory note is attached as 'Attachment 5-A: Promissory Note with the City of
13 Brantford' in this Exhibit. In addition to this rate on affiliated debt, BPI is paying a rates varying from
14 5.51%-5.77% on existing Long Term Loans negotiated with the Royal Bank of Canada and rates varying
15 from 3.46% to 5.14% for existing term facilities negotiated with Ontario Infrastructure and Lands
16 Corporation (OILC).

17 **Cost of Debt- Short-Term**

18 For the purposes of preparing this Application, BPI has used the cost of capital parameters issued by the
19 Board on November 20, 2014 for 2015 COS rate applications which reflect a deemed short term debt
20 rate of 1.65%. BPI will update the deemed short term debt rate to reflect future Board issued cost of
21 capital parameters for rates with effective dates in 2017 prior to the issuance of the Board's decision for
22 its Application.

23 **Capital Structure and Cost of Capital**

24 For 2017, the Weighted Average Cost of Capital of 6.06% will be applied to the Rate Base of
25 \$88,429,953, which is explained in detail in Exhibit 2, to determine a Return on Rate Base of \$5,355,940
26 that is included in the proposed Revenue Requirement.

1 **Forecasts of new debt anticipated in the bridge and test years- Financing Plans**

2 Due to the purchase of a consolidated building that is projected for 2016, BPI has forecasted new debt in
3 2016 (Bridge Year) in the amount of \$13,837,800. BPI made the assumption that the new debt will be
4 financed by the Ontario Infrastructure and Lands Corporation (“OILC”) at a fixed rate of 3.68%. BPI
5 obtained this rate for the OILC website under “Lending Rates: Local Distribution Companies” for a 30-
6 year term loan.

7 **Notional Debt**

8 BPI has calculated its notional debt based on the filing requirements as the difference between the
9 deemed debt of 60% (56% long-term debt and 4% short-term debt) and BPI’s actual debt. BPI’s notional
10 debt is a negative amount (\$1,178,192) as set out in the following table.

11 **Table 5.2-A – Notional Debt**

Rate Base	Deemed Debt Rate	Deemed Debt	2017 Test Year Long Term Debt	Notional Debt
88,429,953	60%	53,057,972	54,236,164	(1,178,192)

12

13 **Profit or Loss on Redemption of Debt**

14 There is no profit or loss on redemption of debt.

15

5.3 Not-For-Profit Organizations

5.3.1 Not-For-Profit Organizations

Not Applicable. A reserve requirement is not applicable because BPI is a for profit corporation.

List of Attachments

Attachment 5-A – Promissory Note with the City of Brantford

Attachment 5-A

Promissory Note with the City of Brantford



January 29, 2016

To whom it may concern:

The following is a true and correct copy of a resolution passed by the Brantford Power Inc. Board of Directors at their meeting of December 16, 2015 regarding the renewal of the Promissory Note payable to the City of Brantford:

"That the Brantford Power Inc. (BPI) \$24,189,168 promissory note be renewed at a rate of 4.20% for a further five year term ending February 1, 2021."

Sincerely

A handwritten signature in black ink, appearing to read "B. D'Amboise".

Brian G. D'Amboise, CPA, CA
Corporate Secretary

PROMISSORY NOTE

Due: February 1, 2021

FOR VALUE RECEIVED, Brantford Power Inc. ("the Corporation") hereby promises to pay to or to the order of The Corporation of the City of Brantford (the "City") the Principal Sum of TWENTY-FOUR MILLION, ONE HUNDRED AND EIGHTY-NINE THOUSAND, ONE HUNDRED AND SIXTY-EIGHT DOLLARS (\$24, 189,168) (The "Principal Sum") with interest at the rate specified herein on February 1, 2021 (the "Maturity Date"). Interest on the Principal Sum shall accrue from the first day of February, 2011 and be payable at a rate per annum equal to the rate of four and twenty one hundredths percent (4.20%). Interest at the aforesaid rate shall be payable annually to the City on the 30th day after the end of the Corporation's fiscal year.

At the option of the City and with six (6) months prior written notice by the City to the Corporation, this Promissory Note may be extended for successive periods (an "Extension Period") of five (5) years at a rate of interest equal to the prime rate of the Royal Bank of Canada (charged to its customers for commercial loans) plus one and one half percent (1.5%) or such other rate of interest as the City and the Corporation may agree upon (the "Extension Period Rate"). Interest at the Extension Period Rate shall be payable annually to the City on the 30th day after the end of the Corporation's fiscal year.

The obligation of the Corporation to pay the Principal Sum and all interest on this Promissory Note is subordinated and postponed to the obligations of the Corporation from time to time to any other financial institution or lender.

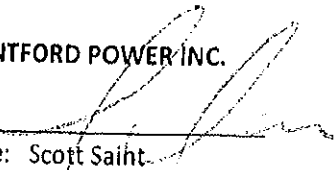
This Promissory Note may, at the option of the City, be converted, as to some or all of the Principal Sum outstanding, into common shares of the Corporation at a conversion ratio of \$100 per share. The foregoing conversion right may be exercised by the City at any time on ninety (90) days prior written notice to the Corporation.

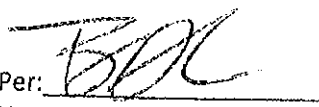
The terms of the Promissory Note are subject to the adjustment provisions of the Transfer By-law passed by the City on October 23, 2000 as By-law Number 156-2000.

This Promissory Note is not assignable by the City without the consent of the Corporation.

DATED this 29th day of January 2016.

BRANTFORD POWER INC.

Per: 
Name: Scott Saint
Title: Chair

Per: 
Name: Brian D'Amboise
Title: Corporate Secretary