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Cost of Capital and Rate of Return

Ex.5/Tab 1/Sch.1 - Capital Structure

InnPower Corporation seeks to recover a weighted average cost of capital of 5.71% through rates in the 2017 – 2021 Test Year. InnPower Corporation has followed the Report of the Board on Cost of Capital for Ontario’s Regulated Utilities, December 11, 2009 in determining the cost of capital.

In calculating the cost of capital, InnPower Corporation has used the OEB’s deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the OEB’s letter of October 15, 2015, for the allowed return on equity (“ROE”).

InnPower Corporation understands that the OEB will most likely update the ROE for 2017 at a later date, and therefore commits to updating its Application to reflect the OEB’s updated Cost of Capital Parameters for 2017 Test Year applications and as new information is issued.

InnPower Corporation’s cost of capital for 2017 – 2021 Test Years has been calculated as 5.71%, as shown in the table below:

Table 5.1: Overview of Capital Structure

Particulars	Cost Rate
	(%)
Debt	
Long-term Debt	3.52
Short-term Debt	1.65
Total Debt	3.39
Equity	
Common Equity	9.19
Preferred Shares	
Total Equity	9.19
Total	5.71

1 The Cost of Capital parameters are consistent with the letter issued by the OEB on October 15,
2 2015, which sets the values as indicated below:

Cost of Capital Parameters	Value for 2016 Applications
ROE	9.19%
Deemed LT Debt Rate	4.77%
3 Deemed ST Debt Rate	2.16%

4 Retirements of debt or preference shares and buy-back of common shares; and Short-Term
5 Debt, Long-Term Debt, preference shares as well as common share offerings do not apply to
6 InnPower Corporation as InnPower Corporation does not issue any preference shares and/or
7 common equity shares.

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Ex.5/Tab 1/Sch.2 - OEB Appendix 2-OA Capital Structure / Cost of Capital

Appendix 2-OA below presents the capital structure for the last Board Approved and Test years.

Table 5.2 2013 Capital Structure and Cost of Capital

		Per Board Decision			
		(%)	(\$)	(%)	(\$)
Debt					
8	Long-term Debt	56.00%	\$18,076,534	4.36%	\$788,889
9	Short-term Debt	4.00%	\$1,291,181	2.07%	\$26,727
10	Total Debt	60.00%	\$19,367,715	4.21%	\$815,617
Equity					
11	Common Equity	40.00%	\$12,911,810	8.98%	\$1,159,481
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	40.00%	\$12,911,810	8.98%	\$1,159,481
14	Total	100.00%	\$32,279,524	6.12%	\$1,975,097

Table 5.3 2017 Capital Structure and Cost of Capital

		Year: 2017			
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$32,243,768	3.52%	\$1,134,797
2	Short-term Debt	4.00%	\$2,303,126	1.65%	\$38,002
3	Total Debt	60.0%	\$34,546,894	3.39%	\$1,172,798
Equity					
4	Common Equity	40.00%	\$23,031,263	9.19%	\$2,116,573
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.0%	\$23,031,263	9.19%	\$2,116,573
7	Total	100.0%	\$57,578,157	5.71%	\$3,289,371

1 **Table 5.4 2018 Capital Structure and Cost of Capital**

Year: **2018**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$34,762,127	3.52%	\$1,223,429
2	Short-term Debt	4.00%	\$2,483,009	1.65%	\$40,970
3	Total Debt	60.0%	\$37,245,136	3.39%	\$1,264,398
Equity					
4	Common Equity	40.00%	\$24,830,091	9.19%	\$2,281,885
5	Preferred Shares				\$ -
6	Total Equity	40.0%	\$24,830,091	9.19%	\$2,281,885
7	Total	100.0%	\$62,075,227	5.71%	\$3,546,284

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3 **Table 5.5 2019 Capital Structure and Cost of Capital**

Year: **2019**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$37,140,902	3.52%	\$1,307,148
2	Short-term Debt	4.00%	\$2,652,922	1.65%	\$43,773
3	Total Debt	60.0%	\$39,793,823	3.39%	\$1,350,921
Equity					
4	Common Equity	40.00%	\$26,529,215	9.19%	\$2,438,035
5	Preferred Shares				\$ -
6	Total Equity	40.0%	\$26,529,215	9.19%	\$2,438,035
7	Total	100.0%	\$66,323,039	5.71%	\$3,788,956

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1 **Table 5.6 2020 Capital Structure and Cost of Capital**

Year: **2020**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)		
	Debt				
1	Long-term Debt	56.00%	\$39,107,635	3.52%	\$1,376,366
2	Short-term Debt	4.00%	\$2,793,402	1.65%	\$46,091
3	Total Debt	60.0%	\$41,901,037	3.39%	\$1,422,457
	Equity				
4	Common Equity	40.00%	\$27,934,025	9.19%	\$2,567,137
5	Preferred Shares				\$ -
6	Total Equity	40.0%	\$27,934,025	9.19%	\$2,567,137
2	7 Total	100.0%	\$69,835,062	5.71%	\$3,989,594

3 **Table 5.7 2021 Capital Structure and Cost of Capital**

Year: **2021**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)		
	Debt				
1	Long-term Debt	56.00%	\$40,928,683	3.52%	\$1,440,456
2	Short-term Debt	4.00%	\$2,923,477	1.65%	\$48,237
3	Total Debt	60.0%	\$43,852,160	3.39%	\$1,488,693
	Equity				
4	Common Equity	40.00%	\$29,234,773	9.19%	\$2,686,676
5	Preferred Shares				\$ -
6	Total Equity	40.0%	\$29,234,773	9.19%	\$2,686,676
4	7 Total	100.0%	\$73,086,933	5.71%	\$4,175,369

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1 **Ex.5/Tab 1/Sch.2 - OEB Appendix 2-OB Cost of Debt Instruments**

2 Appendix 2-OB below presents capital structure for all required historical years, the bridge year
3 and the Test year.

4 **Table 5.8 Appendix 2-OB Cost of Debt Instruments 2013 - 2021**

**Appendix 2-OB
Debt Instruments**

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

Year **2013**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10	20	\$ 1,887,048	0.0453	\$ 85,483.27	
2	Debentures	Town of Innsfil	Third-Party	Fixed Rate	1-Apr-95	20	\$ 2,005,000	0.0626	\$ 125,513.00	
3	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11	15	\$ 2,166,667	0.0391	\$ 84,716.68	
4	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12	24	\$ 3,805,466	0.0405	\$ 154,121.37	
5	Demand	Toronto Dominion Bank	Third-Party	Variable Rate	1-Jan-13	Demand	\$ 3,086,936	0.0412	\$ 127,181.76	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	7-Sep-12	25	\$ 3,877,255	0.0381	\$ 147,723.42	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13	25	\$ 2,994,564	0.0459	\$ 137,450.49	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 19,822,936	4.35%	\$ 862,189.99	

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**Appendix 2-OB
Debt Instruments**

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

Year **2014**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10	20	\$ 1,810,535	4.53%	\$ 82,017.24	
2	Debentures	Town of Innsfil	Third-Party	Fixed Rate	1-Apr-95	20	\$ 1,045,000	6.26%	\$ 65,417.00	
3	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11	15	\$ 2,000,000	3.91%	\$ 78,200.00	
4	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12	24	\$ 3,698,493	4.05%	\$ 149,788.97	
5	Demand	Toronto Dominion Bank	Third-Party	Variable Rate	1-Jan-14	Demand	\$ 10,894,753	4.25%	\$ 463,027.00	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	7-Sep-12	25	\$ 3,774,855	3.81%	\$ 143,821.98	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13	25	\$ 2,929,602	4.59%	\$ 134,468.73	
8	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	23-Jul-14	30	\$ 1,985,371	3.96%	\$ 78,620.69	
9	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	25-Nov-14	30	\$ 1,996,985	3.91%	\$ 78,082.11	
10	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	1-Dec-14	30	\$ 2,000,000	3.91%	\$ -	
11									\$ -	
12									\$ -	
Total							\$ 32,135,594	3.96%	\$ 1,273,443.72	

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**Appendix 2-OB
Debt Instruments**

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

Year **2015**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10	20	\$ 1,730,484	0.0453	\$ 78,390.93	
2	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11	15	\$ 1,833,333	0.0391	\$ 71,683.32	
3	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12	24	\$ 3,585,388	0.0405	\$ 145,208.21	
4	Demand	Toronto Dominion Bank	Third-Party	Variable Rate	1-Jan-14	Demand	\$ 3,681,171	0.0425	\$ 156,449.77	
5	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	7-Sep-12	25	\$ 3,668,484	0.0381	\$ 139,769.24	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13	25	\$ 2,861,596	0.0459	\$ 131,347.26	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	23-Jul-14	30	\$ 1,949,305	0.0396	\$ 77,192.48	
8	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	25-Nov-14	30	\$ 1,961,117	0.0391	\$ 76,679.67	
9	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Jun-15	30	\$ 12,193,723	0.02814	\$ 343,131.37	
10	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	9-Jan-15	30	\$ 1,965,596	0.0368	\$ 72,333.93	
11									\$ -	
12									\$ -	
Total							\$ 35,430,197	3.65%	\$ 1,292,186.17	

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**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 (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10	20	\$ 1,646,952	4.53%	\$ 67,791.00	
2	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11	15	\$ 1,666,667	3.91%	\$ 142,994.00	
3	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12	24	\$ 3,468,067	4.05%	\$ 138,240.00	
4	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	7-Sep-12	25	\$ 3,558,381	3.81%	\$ 130,227.00	
5	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13	25	\$ 2,790,772	4.59%	\$ 76,731.00	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	23-Jul-14	30	\$ 1,912,002	3.96%	\$ 76,307.00	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	25-Nov-14	30	\$ 1,924,037	3.91%	\$ 71,889.00	
8	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	9-Jan-15	30	\$ 1,927,282	3.68%	\$ 340,624.00	
9	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Jun-15	30	\$ 11,925,553	2.81%	\$ 145,184.00	
10	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2015	30	\$ 3,629,591	4.00%	\$ 83,884.00	
11	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2016	30	\$ 4,194,184	2.00%		
12									\$ -	
Total							\$ 38,643,488	3.30%	\$ 1,273,871.00	

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**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 (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10		\$ 1,559,335	4.53%	\$ 72,797.00	
2	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11		\$ 1,499,999	3.91%	\$ 61,087.00	
3	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12		\$ 3,345,163	4.05%	\$ 137,412.00	
4	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	7-Sep-12		\$ 3,443,617	3.81%	\$ 133,578.00	
5	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13		\$ 2,716,257	4.59%	\$ 126,536.00	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	23-Jul-14		\$ 1,872,979	3.96%	\$ 75,009.00	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	25-Nov-14		\$ 1,885,262	3.91%	\$ 74,613.00	
8	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	9-Jan-15		\$ 1,887,331	3.68%	\$ 70,252.00	
9	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Jun-15		\$ 11,648,782	2.81%	\$ 332,023.00	
10	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2015		\$ 3,575,432	4.00%	\$ 143,017.00	
11	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2016		\$ 4,120,684	4.00%	\$ 164,827.00	
11	Demand	Toronto Dominion Bank	Third-Party	Fixed Rate	2017		\$ 4,569,829	2.00%	\$ 91,397.00	
Total							\$ 42,124,670	3.52%	\$ 1,482,548.00	

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**Appendix 2-OB
 Debt Instruments**

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

Year **2018**

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	Bank Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	29-Oct-10	20	\$ 1,467,665	4.53%	\$ 68,744	
2	Debentures	Infrastructure Ontario	Third-Party	Fixed Rate	15-Aug-11	15	\$ 1,333,332	3.91%	\$ 54,570	
3	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	14-Mar-12	24	\$ 3,217,987	4.05%	\$ 133,139	
4	Commercial Loan	Toronto Dominion Bank	Third-Party	Variable Rate	7-Sep-12	25	\$ 3,324,403	3.81%	\$ 129,129	
5	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Nov-13	25	\$ 2,638,250	4.59%	\$ 123,040	
6	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	23-Jul-14	30	\$ 1,832,380	3.96%	\$ 73,436	
7	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	25-Nov-14	30	\$ 1,844,942	3.91%	\$ 73,068	
8	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	9-Jan-15	30	\$ 1,845,885	3.68%	\$ 68,757	
9	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	26-Jun-15	30	\$ 11,364,121	2.81%	\$ 324,134	
10	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2015	30	\$ 3,518,565	4.00%	\$ 140,743	
11	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2016	30	\$ 4,048,002	4.00%	\$ 161,920	
12	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	2017	30	\$ 4,505,956	4.00%	\$ 180,238	
	Demand	Toronto Dominion Bank	Third-Party	Variable Rate	2018	30	\$ 490,635	2.00%	\$ 98,127	
Total							\$ 45,847,823	3.55%	\$ 1,629,045.00	

3

1 **Ex.5/Tab 1/Sch.3 - Cost of Capital**

2 This evidence summarizes the capital structure, method and cost of financing InnPower
3 Corporation's capital requirements for the 2017 – 2021 Test Years.

4 **Capital Structure**

5 The proposed cost rates for cost of capital in the 2017 – 2021 Test Years are presented in the
6 RRWF Workforms for the Appropriate Test Years contained in Exhibit 6. The rates shown for
7 short-term debt and return on equity are those set out in the Board's letter of October 15, 2015,
8 Cost of Capital Parameter Updates for 2016 Cost of Service Applications.

9 InnPower Corporation's current OEB-approved capital structure for rate-making purposes is
10 60% debt and 40% equity. InnPower Corporation intends to maintain the same capital structure
11 in the 2017 – 2021 Test Years. This capital structure was confirmed by the OEB in the Report
12 of the Board on Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (The
13 "Board Report"). The 60% debt component is comprised of 4.0% deemed short-term debt and
14 56.0% deemed long-term debt.

15 **Return on Equity**

16 InnPower Corporation has used a ROE of 9.19% in the 2017 – 2021 Test Years as established
17 by the Board for 2016 cost of service applications. InnPower Corporation recognizes that the
18 ROE will be updated in accordance with Board guidelines and, as such, commits to updating the
19 cost capital parameters as new information is made available.

20 **Weighted Average Cost of Debt**

21 InnPower Corporation proposes a Long Term Debt cost rate for the 2017 – 2021 Test Years of
22 3.52% which is consistent with the OEB prescribed cost of capital parameters.

23 **Long Term Debt**

24 InnPower Corporation's Long Term Debt instruments are itemized in the Chapter 2 Appendices
25 2-OB.

1 **Short Term Debt**

2 InnPower Corporation has used a short-term debt rate of 1.65% for the 2017 – 2021 Test Years
3 as established by the Board for cost of service applications. InnPower Corporation recognizes
4 that the short-term debt rate will be updated at a later date consistent with the OEB’s guidelines.

5 InnPower Corporation does not forecast that it will redeem any debt and has not issued any
6 preference shares, hence InnPower Corporation does not record either a profit or a loss on
7 redemption of debt and/or preference shares.

8 **Not-For-Profit**

9 Note that InnPower Corporation is not a cooperative and as such, all requirements related to a
10 not-for-profit organization do not apply.

11

1 List of Appendices

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	There are no Appendices included in Exhibit 5.

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4