

CAPITAL AND CAPITAL STRUCTURE

1. CAPITAL STRUCTURE AND COST OF CAPITAL

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Capital Structure and Cost of Capital

Adoption of OEB Guidelines

Chapleau PUC has a current deemed capital structure of 56% long term debt with a return of 6.10%, 4% short term debt with a return of 4.47% and 40% equity with a return of 8.57% as approved in the Decision and Order on CPUC' s 2012 Cost of Service Rate Application EB-2011-0322.

CPUC has prepared the 2016 COS Application in accordance with the Ontario Energy Board's ("OEB") guidelines provided in the "Report of the Board on Cost of Capital for Ontario's Regulated Utilities" issued on December 11, 2009. In preparing this Application, CPUC has used the cost of capital parameters issued by the OEB on October 15, 2015 for its 2016 Test Year Cost of Service Rate Application.

Chapleau PUC acknowledges that the OEB may update the cost of capital parameters and CPUC confirms that updates will be done.

CPUC has completed Appendix 2-OA for 2012 Board Approved, 2012 to 2014 Actual, 2015 Bridge Year and 2016 Test Year.

The following table provides the **2012 Board Approved capital structure** from CPUC's COS Application.

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	2012 Board Approved			
		:				
Particulars	Capitalization Ratio		Cost Rate		Return	
	(%)	(\$)	(%)		(\$)	
Debt						
Long-term Debt	56.00%	\$846,878	4.41%		\$37,347	
Short-term Debt	4.00%	\$60,491	2.08%		\$1,258	
Total Debt	60.0%	\$907,370	4.25%		\$38,606	
Equity						
Common Equity	40.00%	\$604,913	9.12%		\$55,168	
Preferred Shares	0.00%	\$ -	9.12%		\$ -	
Total Equity	40.0%	\$604,913	9.12%		\$55,168	
Total	100.0%	\$1,512,283	6.20%		\$93,774	

CPUC has used the cost of capital parameters issued by the OEB on October 15, 2015 for its 2016 Test Year Cost of Service Rate Application and therefore CPUC is requesting a long term debt rate of 4.54%, a short term rate of 1.65% and a common equity rate of 9.19% resulting in a total rate of 6.28%.

The following Table sets out CPUC's proposed deemed capital structure and the return used in this Cost of Service Rate Application.

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 : 2016 Test Year

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$779,280	4.54%	\$35,379
Short-term Debt	4.00% (1)	\$55,663	1.65%	\$918
Total Debt	60.0%	\$834,943	4.35%	\$36,298
Equity				
Common Equity	40.00%	\$556,629	9.19%	\$51,154
Preferred Shares	0.00%	\$ -	9.19%	\$ -
Total Equity	40.0%	\$556,629	9.19%	\$51,154
Total	100.0%	\$1,391,572	6.28%	\$87,452

Appendix 2-OB for historical, Bridge and Test Years

CPUC has completed **Appendix 2-OB** for 2012 Board Approved, 2005 to 2014 Actual, 2015 Bridge Year and 2016 Test Year and is included in Attachment B.

Debt Instruments

Chapleau PUC has no long term debt at present.

The Company has not made significant capital investments to its distribution system in recent years resulting in a distribution system that is aging but still operational. CPUC has experienced relatively high line loss ratios in recent years. CPUC's Board and the Township Council agreed on an Investment Strategy that entails a significant capital investment that the Company will enter into. This will most likely result in the borrowing of just over a million dollars from Infrastructure Ontario over a 20 to 30 year term at approximately 3.50% interest rate.

Notional Debt

CPUC has calculated its Notional Debt based on the filing requirements as the difference between the total deemed debt (60.0%) and CPUC's proposed debt. CPUC's notional debt is as follows:

Rate Base	\$1,391,572
Debt Rate	60.0%
Deemed Debt	\$834,943
Proposed Long Term Debt	\$1,035,619
Notional Debt	(\$200,679)

Approved Reserves From Previous OEB Decisions

CPUC does not have approved reserves from previous OEB decisions.