

EXHIBIT 5 – COST OF CAPITAL AND RATE OF RETURN

1

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1 **OVERVIEW**

2 The purpose of this evidence is to summarize the method and cost of financing capital requirements for
3 the 2017 Test Year.

4 **Capital Structure**

5 E.L.K. has a current deemed capital structure of 56% long term debt with a return of 2.71%, 4% short
6 term debt with a return of 2.08% and 40% equity with a return of 9.12% as approved in the 2012 cost of
7 service (“COS”) rate decision EB-2011-0099.

8 E.L.K. has prepared this 2017 COS Application in accordance with the Board’s guidelines provided in the
9 *Report of the Board on Cost of Capital for Ontario’s Regulated Utilities* issued on December 11, 2009. For
10 the purposes of preparing this Application, E.L.K. has used the cost of capital parameters issued by the
11 Board on October 15, 2015, for 2016 cost of service rate applications for rates with effective dates in May
12 2016. E.L.K. understands that the OEB has now updated the ROE for 2017 Cost of Service Applications,
13 and therefore commits to updating its Application to reflect the OEB’s updated Cost of Capital Parameters
14 for May 1, 2017 applications at a later date as E.L.K. is in the final review stages.

15 **Return on Equity**

16 As outlined above, for the purposes of preparing this Application E.L.K. has used the cost of capital
17 parameters issued by the Board on October 15, 2015 for 2016 COS rate applications which reflects a
18 return on equity of 9.19%. E.L.K. will update the return on equity to reflect the Board issued cost of capital
19 parameters at a later date for E.L.K.’s May 1, 2017 application.

20 **Cost of Debt: Long Term**

21 E.L.K. is requesting a return on long term debt for the 2017 Test Year of 2.95%. This rate of return
22 represents the weighted average cost of long term debt for the TD Bank Loan.

23 **Cost of Debt: Short Term**

24 For the purposes of preparing this Application, E.L.K. has used the cost of capital parameters issued by
25 the Board on October 15, 2015 for 2016 COS rate applications which reflect a deemed short term debt
26 rate of 1.65%. E.L.K. will update the deemed short term debt rate to reflect the Board issued cost of
27 capital parameters at a later date for E.L.K.’s May 1, 2017 application and prior to the issuance of the
28 Board’s decision for its Application.

1 **CAPITAL STRUCTURE AND COST OF CAPITAL**

2 Below is a reproduction of Appendix 2-OA that demonstrates the elements of the capital structure and
 3 cost of capital from 2012 Board-approved and 2017 Test Year. For E.L.K., the weighted average cost of
 4 capital of 5.39% will be applied to the rate base of \$12,000,666, which is explained in detail in Exhibit 2,
 5 to determine a return on rate base of \$647,316 that is included in the proposed revenue requirement.

**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

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$7,025,249	2.71%	\$190,384
2	Short-term Debt	4.00% (1)	\$501,804	2.08%	\$10,438
3	Total Debt	60.0%	\$7,527,053	2.67%	\$200,822
	Equity				
4	Common Equity	40.00%	\$5,018,035	9.12%	\$457,645
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.0%	\$5,018,035	9.12%	\$457,645
7	Total	100.0%	\$12,545,088	5.25%	\$658,467

Year: 2017

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$6,720,373	2.95%	\$198,251
2	Short-term Debt	4.00% (1)	\$480,027	1.65%	\$7,920
3	Total Debt	60.0%	\$7,200,400	2.86%	\$206,171
	Equity				
4	Common Equity	40.00%	\$4,800,266	9.19%	\$441,144
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.0%	\$4,800,266	9.19%	\$441,144
7	Total	100.0%	\$12,000,666	5.39%	\$647,316

Notes

6 (1) 4.0% unless an applicant has proposed or been approved for a different amount.

1 **WEIGHTED AVERAGE COST OF LONG-TERM DEBT**

2
 3 Outlined below is a reproduction of Appendix 2-OB listing E.L.K.'s long term debt instruments and
 4 weighted average cost of long term debt from 2012 to the 2017 test year.

**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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-11	1	\$ 5,600,000	0.0214	\$ 119,840.00	
2	Shareholder Debt	Town of Essex	Affiliated	Fixed Rate	2000		\$ 1,900,000	0.0441	\$ 83,790.00	
Total							\$ 7,500,000	0.0271507	\$ 203,630.00	

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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-12	1	\$ 4,800,000	0.02	\$ 96,000.00	
2	Shareholder Debt	Town of Essex	Affiliated	Fixed Rate	2000		\$ 1,900,000	0.0725	\$ 137,750.00	
Total							\$ 6,700,000	0.0348881	\$ 233,750.00	

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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-13	1	\$ 4,800,000	0.0204	\$ 97,920.00	
2	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-13	1	\$ 1,100,000	0.0204	\$ 22,440.00	
Total							\$ 5,900,000	0.0204	\$ 120,360.00	

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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-14	1	\$ 4,800,000	0.0159	\$ 76,320.00	
2	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-14	1	\$ 300,000	0.0159	\$ 4,770.00	
Total							\$ 5,100,000	0.0159	\$ 81,090.00	

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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-15	1	\$ 4,300,000	0.0295	\$ 126,850.00	
2									\$ -	
Total							\$ 4,300,000	0.0295	\$ 126,850.00	

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	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-16	1	\$ 4,300,000	0.0295	\$ 126,850.00	
2									\$ -	
Total							\$ 4,300,000	0.0295	\$ 126,850.00	

1 If financing is in place only part of the year, separately calculate the pro-rated interest in the year and input in the cell.
 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009, or with any subsequent update issued by the Board.
 3 Add more lines above row 12 if necessary.

1 **PROFIT OR LOSS ON REDEMPTION OF DEBT OR PREFERRED SHARES**

2 There is no profit or loss on redemption of debt or preferred shares.

3 **NOTIONAL DEBT**

4 Notional debt is that portion of the deemed debt capitalization that results from differences between the
5 distributor's actual debt and the deemed debt thickness of 60% (56% long-term debt and 4% short-term
6 debt). E.L.K. has about \$3.2 million in notional debt in the test year (i.e. deemed debt portion of rate base
7 of \$7.5 million minus actual debt of \$4.3 million). E.L.K. understands the notional debt should attract the
8 weighted average cost of actual long-term debt on the \$4.3 million.

9

10 **NOT-FOR-PROFIT CORPORATIONS**

11 E.L.K. is a for-profit corporation. As a result, the filing requirements associated with not-for-profit
12 corporations are not applicable.