

COST OF CAPITAL

1.0 INTRODUCTION

The purpose of this evidence is to summarize the method and cost of financing of Remotes' capital requirements for the 2018 test year.

2.0 CAPITAL STRUCTURE

Consistent with the Board's Decision in RP-1998-0001 and subsequent Decisions, Remotes is 100% debt-financed and is operated as a break-even company. Remotes does not plan to seek a return on equity. As such, Remotes' cost of capital is based on 100% debt, consisting of 4% deemed short term debt and 96% long term debt.

Long term debt includes \$43,000K of long term debt issued to Hydro One Inc., reflecting debt issued by Hydro One Inc. to third party public debt investors, and (\$333)K of deemed long term debt.

3.0 DEEMED SHORT-TERM DEBT

The Board has determined that the deemed amount of short-term debt that should be factored into rate setting be fixed at 4% of rate base and that the deemed short-term debt rate be based on the forecast three-month bankers' acceptance rate plus the average spread as determined through a Board staff survey of real market quotes from major

1 banks¹. For Remotes, the deemed short-term rate is 1.76%, consistent with the Deemed
2 Short-Term Debt Rate in the OEB's Cost of Capital Parameter Updates for 2017 Cost of
3 Service Applications for Rates Effective January 1, 2017, dated October 27, 2016.
4 Remotes assumes that the deemed short term debt rate for 2018 will be updated in
5 accordance with the Board's December 11, 2009, Cost of Capital Report upon the final
6 decision in this case.

7 8 **4.0 THIRD PARTY LONG-TERM DEBT**

9
10 The long-term debt rate is calculated as the weighted average cost rate on embedded debt,
11 and new debt (debt issued after the last OEB-approved rate application). The weighted
12 average rate on long-term debt is 4.63% for 2018. Details of Remotes long-term debt
13 rate calculation for the 2018 test year are shown in Exhibit E2, Tab 2, Schedule 1,
14 Attachment 6.

15 16 **4.1 Embedded Debt**

17
18 The Board has determined in its Cost of Capital Report that for embedded debt, the rate
19 approved in prior Board decisions shall be maintained for the life of each active
20 instrument, unless a new rate is negotiated, in which case it will be treated as new debt.
21 Remotes' embedded long-term debt was issued in 2005 has a maturity date of May 20,
22 2036, an interest coupon rate of 5.36% per annum and an effective cost rate of 5.60%. It
23 is shown at Exhibit C2, Tab 8, Schedule 2, page 1. The effective cost rate on this
24 embedded debt was approved by the Board as part of EB-2008-0232.

¹ The Board indicated in Appendix D of the December 11, 2009 Cost of Capital Report that, once a year, Board staff will obtain real market quotes from major banks, for issuing spreads over Bankers Acceptance rates to calculate an average spread.

1 **4.2 New Debt**

2
3 The Board has determined in its Cost of Capital Report that the rate for new debt that is
4 held by a third-party public debt investor will be the prudently negotiated contract rate.
5 This would include recognition of premiums and discounts.

6
7 In June 2014, Hydro One Inc. issued \$350 million of thirty-year notes, of which \$10
8 million was mapped to Remotes. The new debt has a maturity date of June 6, 2044, an
9 interest coupon rate of 4.17% per annum and an effective cost rate of 4.21%, including
10 issuance costs such as issue discount and agency commissions.

11
12 In February 2016, Hydro One Inc. issued \$500 million of ten-year notes, of which \$10
13 million was mapped to Remotes. The new debt has a maturity date of February 24, 2026,
14 an interest coupon rate of 2.77% per annum and an effective cost rate of 2.82%, including
15 issuance costs such as issue discount and agency commissions.

16
17 **5.0 DEEMED LONG-TERM DEBT**

18
19 Deemed long-term debt of (\$333)K in 2018 reflects the remaining amount of debt
20 required to balance the total financing with the rate base. In its Decision in EB-2008-
21 0232, the Board indicated that, “For companies with embedded debt, it is the cost of this
22 embedded debt which should be applied to any additional notional (or deemed) debt that
23 is required to balance the capital structure.” Accordingly, the deemed long-term debt is
24 calculated at 4.63%.

1 **6.0 COST OF CAPITAL SUMMARY**

2
3 Remotes' 2018 rate base is \$44,445K which results in a weighted cost on rate base of
4 4.52%, as shown in table below.

5
6 **2018 Cost of Capital**

Particulars	(in \$K)	% Of Rate Base	Cost Rate (%)	Weighted Cost Rate %	Cost of Capital (in \$K)
Deemed short-term debt	1,788	4.0%	1.76%	0.07%	31
Third Party long-term debt	43,000	96.7%	4.63%	4.48%	1,991
Deemed long-term debt	(333)	-0.7%	4.63%	-0.03%	(15)
Total	44,445	100%		4.52%	\$2,007

7
8 The historical debt summary schedules have been provided at Exhibit E2, Tab 2,
9 Schedule 1, Attachments 1 to 4. The capital structure and cost of capital for the Board
10 Approved Year 2013 and the Test Year 2018 have been provided at Exhibit E2, Tab 1,
11 Schedules 1 and 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.

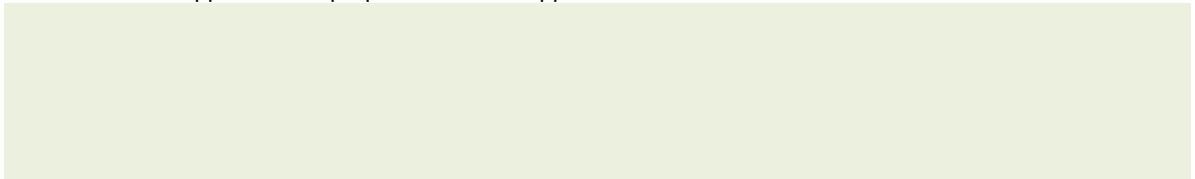
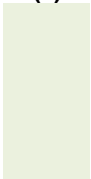
Year: 2013 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	96.00%	\$39,446	5.60%	\$2,209
2	Short-term Debt	4.00% (1)	\$1,644	2.01%	\$33
3	Total Debt	100.0%	\$41,090	5.46%	\$2,242
	Equity				
4	Common Equity		\$ -		\$ -
5	Preferred Shares		\$ -		\$ -
6	Total Equity	0.0%	\$ -	0.00%	\$ -
7	Total	100.0%	\$41,090	5.46%	\$2,242

Notes

(1)

4.0% unless an applicant has proposed or been approved for a different amount.



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: 2018 Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	96.00%	\$42,667	4.63%	\$1,975
2	Short-term Debt	4.00% (1)	\$1,778	1.76%	\$31
3	Total Debt	100.0%	\$44,445	4.52%	\$2,007
	Equity				
4	Common Equity		\$ -		\$ -
5	Preferred Shares		\$ -		\$ -
6	Total Equity	0.0%	\$ -	0.00%	\$ -
7	Total	100.0%	\$44,445	4.52%	\$2,007

Notes

(1)

4.0% unless an applicant has proposed or been approved for a different amount.

1 **REMOTES DEBT INSTRUMENTS 2013 TO 2018**

2

3 The following attachments contain the OEB Chapter 2, Appendices 2-OB, Debt
4 Instruments for the years 2013 to 2018 inclusive.

5

6 Attachment 1: Hydro One Remote Communities Inc. Debt Instruments 2013

7 Attachment 2: Hydro One Remote Communities Inc. Debt Instruments 2014

8 Attachment 3: Hydro One Remote Communities Inc. Debt Instruments 2015

9 Attachment 4: Hydro One Remote Communities Inc. Debt Instruments 2016

10 Attachment 5: Hydro One Remote Communities Inc. Debt Instruments 2017

11 Attachment 6: Hydro One Remote Communities Inc. Debt Instruments 2018

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 23,000,000	5.60%	\$ 1,288,000	

Notes

- 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.

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2	\$10M note maturing June 6, 2044	Hydro One Inc.	Third-Party	Fixed Rate	6-Jun-14	30	\$ 5,698,630	4.21%	\$ 239,912	Average principal represents the pro-rated amount outstanding in 2014
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 28,698,630	5.32%	\$ 1,527,912	

Notes

- 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.

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2	\$10M note maturing June 6, 2044	Hydro One Inc.	Third-Party	Fixed Rate	6-Jun-14	30	\$ 10,000,000	4.21%	\$ 421,000	
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 33,000,000	5.18%	\$ 1,709,000	

Notes

- 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.

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2	\$10M note maturing June 6, 2044	Hydro One Inc.	Third-Party	Fixed Rate	6-Jun-14	30	\$ 10,000,000	4.21%	\$ 421,000	
3	\$10M note maturing Feb 24, 2026	Hydro One Inc.	Third-Party	Fixed Rate	24-Feb-16	10	\$ 8,497,268	2.82%	\$ 239,623	Average principal represents the pro-rated amount outstanding in 2016
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 41,497,268	4.70%	\$ 1,948,623	

Notes

- 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.

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2	\$10M note maturing June 6, 2044	Hydro One Inc.	Third-Party	Fixed Rate	6-Jun-14	30	\$ 10,000,000	4.21%	\$ 421,000	
3	\$10M note maturing Feb 24, 2026	Hydro One Inc.	Third-Party	Fixed Rate	24-Feb-16	10	\$ 10,000,000	2.82%	\$ 282,000	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 43,000,000	4.63%	\$ 1,991,000	

Notes

- 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
- 3 Add more lines above row 12 if necessary.

**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)	Average Principal (\$)	Effective Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	\$23M note maturing May 20, 2036	Hydro One Inc.	Third-Party	Fixed Rate	19-May-05	31	\$ 23,000,000	5.60%	\$ 1,288,000	
2	\$10M note maturing June 6, 2044	Hydro One Inc.	Third-Party	Fixed Rate	6-Jun-14	30	\$ 10,000,000	4.21%	\$ 421,000	
3	\$10M note maturing Feb 24, 2026	Hydro One Inc.	Third-Party	Fixed Rate	24-Feb-16	10	\$ 10,000,000	2.82%	\$ 282,000	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 43,000,000	4.63%	\$ 1,991,000	

Notes

- 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
- 3 Add more lines above row 12 if necessary.