

EB-2016-0085

**InnPower Corporation
Application for electricity distribution
rates beginning July 1, 2017**

**VULNERABLE ENERGY CONSUMERS COALITION
("VECC")**

COST OF CAPITAL

October 2, 2017

TAB 1

EXHIBIT 5 – COST OF CAPITAL & CAPITAL STRUCTURE

5.0-Staff-55

**Ref: Supplemental Filing, pg 19
 Exhibit 5, pg 3**

InnPower has calculated its notional debt as 7%.

- a) **Please provide a calculation of InnPower’s actual capital structure.**
- b) **Please confirm that InnPower’s rate of return has been calculated on the basis of deemed capital structure.**
- c) **Please calculate the difference in return between the approved ROE and InnPower’s cost of long term debt for the notional debt.**

InnPower Corporation Response:

a) In the original EB-2016-0085 submission filed November 28, 2016, InnPower calculated a 7% notional debt based on the 2016 forecasted financials and inadvertently expressed the notional debt as a positive percentage versus a negative percentage. The 2016 deemed debt ratio is 60% and InnPower’s 2016 actual debt ratio is 62.71% for a calculated notional debt of -2.71%. The following table presents the actual capital structure.

Actual Capital Structure for 2016

Description	\$	Ratio
Long Term Debt	31,210,188	58.03%
Short Term Debt	2,519,595	4.68%
Total Debt	33,729,783	62.71%
Common Share Equity	20,057,399	37.29%
Total equity	20,057,399	37.29%
Total Rate Base	53,787,182	100.00%

- b) InnPower confirms that the rate of return has been calculated on the basis of deemed capital structure. It is InnPower’s understanding that rates are based on the OEB deemed capital structure and cost rates, not actual.*
- c) InnPower calculates the difference in return as \$11,424 as presented on the following page.*

2016 Difference in Return

Description	\$	Deemed Capitalization Ratio (DCR)	Actual Capitalization Ratio (ACR)	Deemed Cost Rate	Return (DCR)	Return (ACR)	Difference in Return (DCR-ACR)
Total Debt	33,729,783	60.00%	62.71%	4.09%	827,729	865,111	-37,382
Total Equity	20,057,399	40.00%	37.29%	8.98%	720,462	671,656	48,806
<hr/>							
Total Rate							
Base	53,787,182	100.00%	100.00%	5.91%	1,548,191	1,536,766	11,424

TAB 2

1 **5.0-Staff-56**

2
3 **Ref: Exhibit 5, pg 6**
4 **Revenue Requirement Workform, Sheet 7**

5
6 **InnPower has calculated the cost of long term debt at Exhibit 5, page 6 as 3.24%. The cost of long term**
7 **debt as contained in the Revenue Requirement Workform is 3.72%**

- 8 a) **Please clarify the proposed cost of long term debt and provide corrected worksheets as**
9 **required.**
10 b) **With regard to the new third party debt forecast for 2017, has this debt been acquired? If so,**
11 **what is the actual interest rate?**
12 c) **If this debt has not been acquired, please explain why InnPower believes that a forecast 2% rate**
13 **is reasonable, given that the interest rate applied to the 2016 debt is 4%.**

14
15 ***InnPower Corporation Response:***

- 16
17 a) *The value presented for the cost of long term debt in Exhibit 5, page 6 of 3.24% is the 2016 Cost of*
18 *Capital Parameter. The value of 3.72% for the Deemed LT Debt rate in the RRWF is the 2017 Cost*
19 *of Capital Parameter issued by the Board on October 27, 2016. Although changed in the RRWF,*
20 *InnPower did not correct the value in Exhibit 5. In updating the cost of long term debt InnPower*
21 *has recalculated the cost of long term debt to be 3.57%. In calculating the 3.57% InnPower*
22 *updated Appendix 2-OB Debt Instruments for 2016 and 2017*

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	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	Feb 12, 2016		\$ 2,851,465	3.48%	\$ 100,338.08	
11	Commercial Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	Jan 31, 2017		\$ 3,100,000	3.60%	\$ 100,369.08	
12	Demand	Toronto Dominion Bank	Third-Party	Fixed Rate	2017		\$ 2,284,915	4.00%	\$ 75,842.00	
	Total						\$ 38,095,105	3.57%	\$ 1,359,856.16	

- 24
25
26 b) *At this time, no 3rd party debt forecast for 2017 has been acquired.*
27 c) *Debt is generally acquired throughout the year, but later in the year for current year capital*
28 *expenditures. We make the assumption that 4% pertains to a full year of interest and 2% is*
29 *appropriate for an average in the year of acquisition. Example, in the above table the debt amount*
30 *for 2017 was divided by 2 for a half year and a 4% rate was applied.*
31

TAB 3

Lending Rates: Local Distribution Companies

Indicative Lending Rates as of 29/09/2017

Term	Construction	Serial	Amortizer
1 Month	2.20%	-	-
5 Year	-	2.78%	2.78%
10 Year	-	3.22%	3.24%
15 Year	-	3.49%	3.52%
20 Year	-	3.66%	3.71%
25 Year	-	3.77%	3.83%
30 Year	-	3.84%	3.90%

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