



EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

2019 Cost of Service

Lakeland Power Distribution Ltd.
EB-2018-0050

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5.1 CAPITAL STRUCTURE

5.1.1 OVERVIEW OF CAPITAL STRUCTURE

In this Exhibit, LPDL presents evidence regarding its Capital Structure, Debt Financing and the calculation of Return on Equity ("ROE") for the 2019 Test Year.

LPDL seeks to recover a weighted average Cost of Capital of 5.43% through rates in the 2019 Test Year. LPDL has followed the *"Report of the Board on Cost of Capital for Ontario's Regulated Utilities"*, December 11, 2009 as well as the *"Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities"*, January 14, 2016, in determining the Cost of Capital.¹

In calculating the Cost of Capital, LPDL 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 November 23, 2017, for the allowed ROE. LPDL is not seeking any changes in its Capital Structure from its 2013 Board Approved Structure other than the rates which are imposed by the OEB.²

LPDL understands that the OEB will most likely update the capital parameters for 2019 at a later date, and therefore commits to updating this Application to reflect the OEB's updated Cost of Capital Parameters for 2019 applications and as new information is issued.

LPDL legally amalgamated with the former PSP on July 1, 2014. In the OEB decision of EB-2013-0427/0428, LPDL's license ED-2002-0540 was amended to incorporate the additional service territory of the former PSP and included the cancellation of PSP license ED-2003-0006.

LPDL is a wholly owned subsidiary of Lakeland Holding Ltd. which is owned by the municipalities of Bracebridge, Huntsville, Parry Sound, Sundridge, Burk's Falls and Magnetawan. No securities were issued and no assets were distributed by LPDL as part of the legal amalgamation.

¹ MFR – Statement that LDC adopts OEB's guidelines for cost of capital and confirms that updates will be done. Alternatively - utility specific cost of capital with supporting evidence

² MFR – Explanation for any changes in capital structure

During the restructure, LPDL underwent a corporate refinancing, including repayment of all outstanding debt of the former PSP and established an additional \$2.7 M in long-term debt with a financial institution.

5.1.2 2013 BOARD APPROVED PROXY

The last Board Approved amounts were established for each of these entities in the following Applications:

- LDPL – 2013 Cost of Service, EB-2012-0145
- PSP – 2011 Cost of Service, EB-2010-0140

As a result of the amalgamation, and in light of the fact that each of the former utilities had different rate basing years, LDPL has developed a 2013 Board Approved Proxy Capital Structure and Cost of Capital Proxy for comparative purposes.

For purposes of this Exhibit, the 2013 Board Approved Proxy was calculated as the aggregate of:

- Former LPDL Board Approved Cost of Capital, as approved in EB-2012-0145; and
- Former PSP Board Approved Cost of Capital for 2011, as approved in EB-2010-0140, as inflated for Working Capital requirements in 2012 and 2013 utilizing the Board Incentive Rate-setting Mechanism ("IRM") inflation factors for each of those years for the former PSP.

LPDL proposes to utilize the 2013 Board Approved Proxy to facilitate a comparison of Rate Base in a manner consistent with the current LPDL corporate structure and Board Filing Requirements. Table 1 below provides the components of the 2013 Board Approved Proxy for Rate Base and Capital Structure.

1 **Table 1: 2013 Board Approved Proxy for Rate Base and Capital Structure**

2013 BOARD APPROVED - FORMER LPDL			2013 BOARD APPROVED PROXY - FORMER PSP			2013 BOARD APPROVED PROXY - COMBINED		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	4.25%	Long-Term Debt	56.00%	7.25%	Long-Term Debt	56.00%	4.93%
Short-Term Debt	4.00%	2.08%	Short-Term Debt	4.00%	2.46%	Short-Term Debt	4.00%	2.17%
Return On Equity	40.00%	8.93%	Return On Equity	40.00%	9.58%	Return On Equity	40.00%	9.08%
Weighted Debt Rate		4.11%	Weighted Debt Rate		6.93%	Weighted Debt Rate		4.75%
Regulated Rate of Return		6.04%	Regulated Rate of Return		7.99%	Regulated Rate of Return		6.48%

WORKING CAPITAL ALLOWANCE FOR 2013 BA - FORMER LPDL		WORKING CAPITAL ALLOWANCE FOR 2013 BA - FORMER PSP		WORKING CAPITAL ALLOWANCE FOR 2013 BA - PROXY	
Distribution Expenses		Distribution Expenses		Distribution Expenses	
Distribution Expenses - Operation	197,000	Distribution Expenses - Operation	78,080	Distribution Expenses - Operation	275,080
Distribution Expenses - Maintenance	876,046	Distribution Expenses - Maintenance	367,971	Distribution Expenses - Maintenance	1,244,017
Billing and Collecting	720,198	Billing and Collecting	401,605	Billing and Collecting	1,121,803
Community Relations	21,000	Community Relations	13,647	Community Relations	34,647
Administrative and General Expenses	1,379,753	Administrative and General Expenses	689,706	Administrative and General Expenses	2,069,459
Return on PP&E	-	Return on PP&E	-	Return on PP&E	-
Taxes Other than Income Taxes	10,702	Taxes Other than Income Taxes	-	Taxes Other than Income Taxes	10,702
Less: Capital Taxes within 6105	-	Less: Capital Taxes within 6105	-	Less: Capital Taxes within 6105	-
Total Eligible Distribution Expenses	3,204,699	Total Eligible Distribution Expenses	1,551,009	Total Eligible Distribution Expenses	4,755,708
Power Supply Expenses	21,370,772	Power Supply Expenses	8,691,176	Power Supply Expenses	30,061,948
Total Working Capital Expenses	24,575,471	Total Working Capital Expenses	10,242,185	Total Working Capital Expenses	34,817,655
Working Capital Allowance rate of 13%	3,194,811	Working Capital Allowance rate of 15%	1,536,328	Working Capital Allowance rate of 13%	4,731,139

RATE BASE CALCULATION FOR 2013 BA - LPDL		RATE BASE CALCULATION FOR 2013 BA - PSP		RATE BASE CALCULATION FOR 2013 BA - PROXY	
Fixed Assets Opening Balance 2013	16,288,908	Fixed Assets Opening Balance 2013	4,120,491	Fixed Assets Opening Balance 2013	20,409,399
Fixed Assets Closing Balance 2013	17,333,958	Fixed Assets Closing Balance 2013	4,628,898	Fixed Assets Closing Balance 2013	21,962,856
Average Fixed Asset Balance for 2013	16,811,433	Average Fixed Asset Balance for 2013	4,374,695	Average Fixed Asset Balance for 2013	21,186,128
Working Capital Allowance	3,194,811	Working Capital Allowance	1,536,328	Working Capital Allowance	4,731,139
Rate Base	20,006,244	Rate Base	5,911,022	Rate Base	25,917,267
Regulated Rate of Return	6.04%	Regulated Rate of Return	7.99%	Regulated Rate of Return	6.48%
Regulated Return on Capital	1,207,417	Regulated Return on Capital	472,314	Regulated Return on Capital	1,679,731
Deemed Interest Expense	492,794	Deemed Interest Expense	245,804	Deemed Interest Expense	738,598
Deemed Return on Equity	714,623	Deemed Return on Equity	226,510	Deemed Return on Equity	941,133

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3 The 2013 Board Approved – Former LPDL data is from the decision in EB-2012-0145 and the
4 2013 Board Approved – Former PSP is the data from the decision in EB-2010-0140 for the
5 following items; long term debt portion and rate, short term debt portion and rate, ROE portion
6 and rate, fixed assets opening/closing and the working capital allowance rate. The items that
7 were modified using the 2012 and 2013 IRM inflation factors (.58 and 1.08 respectively) were
8 distribution expenses and power supply expenses.

9 For the combined 2013 Board Approved Proxy values, the following items were added together;
10 distribution and power supply expenses as calculated above, fixed assets as per values in CoS
11 decisions, deemed interest and deemed ROE, as well as rate base.

12 Long term debt effective rate = LPDL rate base/total rate base * LPDL effective rate + PSP rate
13 base/total rate base * PSP effective rate

14 A similar calculation was used to recalculate the effective rates for short term debt and ROE.

5.1.3 2019 DEEMED CAPITAL STRUCTURE

LPDL's Cost of Capital for 2019 has been calculated as 5.43%, as shown in Table 2 below.

Table 2: Overview of Capital Structure³

Particulars	Cost Rate
	(%)
Debt	
Long-term Debt	3.11%
Short-term Debt	2.29%
Total Debt	3.06%
Equity	
Common Equity	9.0%
Preferred Shares	
Total Equity	9.0%
WACC	5.43%

Retirements of debt or preference shares and buy-back of common shares; and offerings of short-term debt, long-term debt, preference shares do not apply to LPDL as LPDL has not issued any preference shares.

5.2 CAPITAL STRUCTURE / COST OF CAPITAL

Appendix 2-OA in Table 3 below presents the Capital Structure for the 2013 Board Approved Proxy, Actuals for 2013 through 2017, 2018 Bridge Year and 2019 Test year.⁴

³ MFR – Calculation of cost for each capital component

⁴ MFR – Completed Appendix 2-OA for last OEB approved and test year

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Table 3: Appendix 2-OA Capital Structure/Cost of Capital

2019				
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$16,834,013	3.11%	\$523,538
Short-term Debt	4.00%	\$1,202,429	2.29%	\$27,536
Total Debt	60.0%	\$18,036,442	3.06%	\$551,073
Equity				
Common Equity	40.00%	\$12,024,295	9.00%	\$1,082,187
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$12,024,295	9.00%	\$1,082,187
Total	100.0%	\$30,060,737	5.43%	\$1,633,260

2018				
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$17,610,302	4.93%	\$868,534
Short-term Debt	4.00%	\$1,257,879	2.17%	\$27,251
Total Debt	60.0%	\$18,868,180	4.75%	\$895,785
Equity				
Common Equity	40.00%	\$12,578,787	9.08%	\$1,141,876
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$12,578,787	9.08%	\$1,141,876
Total	100.0%	\$31,446,967	6.48%	\$2,037,661

2017

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$17,269,022	4.93%	\$851,703
Short-term Debt	4.00%	\$1,233,502	2.17%	\$26,723
Total Debt	60.0%	\$18,502,524	4.75%	\$878,425
Equity				
Common Equity	40.00%	\$12,335,016	9.08%	\$1,119,747
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$12,335,016	9.08%	\$1,119,747
Total	100.0%	\$30,837,540	6.48%	\$1,998,172

2016

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$17,312,677	4.93%	\$853,856
Short-term Debt	4.00%	\$1,236,620	2.17%	\$26,790
Total Debt	60.0%	\$18,549,297	4.75%	\$880,646
Equity				
Common Equity	40.00%	\$12,366,198	9.08%	\$1,122,578
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$12,366,198	9.08%	\$1,122,578
Total	100.0%	\$30,915,495	6.48%	\$2,003,223

2015

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$16,556,156	4.93%	\$816,544
Short-term Debt	4.00%	\$1,182,583	2.17%	\$25,619
Total Debt	60.0%	\$17,738,738	4.75%	\$842,164
Equity				
Common Equity	40.00%	\$11,825,825	9.08%	\$1,073,524
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$11,825,825	9.08%	\$1,073,524
Total	100.0%	\$29,564,563	6.48%	\$1,915,687

2014

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$15,649,232	4.93%	\$771,815
Short-term Debt	4.00%	\$1,117,802	2.17%	\$24,216
Total Debt	60.0%	\$16,767,034	4.75%	\$796,031
Equity				
Common Equity	40.00%	\$11,178,023	9.08%	\$1,014,718
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$11,178,023	9.08%	\$1,014,718
Total	100.0%	\$27,945,056	6.48%	\$1,810,749

2013

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$14,757,478	4.93%	\$727,834
Short-term Debt	4.00%	\$1,054,106	2.17%	\$22,836
Total Debt	60.0%	\$15,811,583	4.75%	\$750,670
Equity				
Common Equity	40.00%	\$10,541,056	9.08%	\$956,895
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$10,541,056	9.08%	\$956,895
Total	100.0%	\$26,352,639	6.48%	\$1,707,565

2013

Proxy

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$14,513,670	4.93%	\$715,859
Short-term Debt	4.00%	\$1,036,691	2.17%	\$22,459
Total Debt	60.0%	\$15,550,360	4.75%	\$738,318
Equity				
Common Equity	40.00%	\$10,366,907	9.08%	\$941,092
Preferred Shares		\$ -		\$ -
Total Equity	40.0%	\$10,366,907	9.08%	\$941,092
Total	100.0%	\$25,917,267	6.48%	\$1,679,410

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5.3 COST OF DEBT INSTRUMENTS

Appendix 2-OB in Table 4 below presents the cost of debt instruments for all required historical years, 2013-2017, 2018 Bridge Year and 2019 Test Year.⁵ It is expected that the renewals in February 2019 and July 2019 will likely be at or higher than 3.62% (current renewal rate). For purposes of the 2019 Test Year, a renewal rate of 3.62% was used for tranches coming due in 2019 based on current renewal rates.

⁵ MFR – Completed Appendix 2-OB for historical, bridge and test years

Table 4: Appendix 2-OB Cost of Debt Instruments

Year 2019

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-18	5	\$ 1,162,500	3.62%	\$ 42,082.50	12 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-17	5	\$ 2,325,000	3.21%	\$ 74,632.50	12 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-17	5	\$ 2,698,887	3.04%	\$ 82,046.16	12 months
4	Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-17	2	\$ 4,000,000	2.17%	\$ 7,233.33	1 month
5	Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-19	5	\$ 4,000,000	3.62%	\$ 132,733.33	11 months
6	Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-16	3	\$ 7,258,070	2.18%	\$ 92,929.84	declining balance
7	Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-19	3	\$ 7,126,070	3.62%	\$ 107,484.89	as per most recent renewal
Total							\$ 17,312,457	3.11%	\$ 539,142.56	

Year 2018

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-18	5	\$ 1,162,500	3.62%	\$ 31,561.88	9 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-17	5	\$ 2,325,000	3.21%	\$ 74,632.50	12 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-17	5	\$ 2,698,887	3.04%	\$ 82,046.16	12 months
4	Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-17	2	\$ 4,000,000	2.17%	\$ 86,800.00	12 months
5	Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-16	3	\$ 7,390,070	2.18%	\$ 164,354.73	declining balance
6	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	expired	\$ 1,162,500	2.94%	\$ 8,544.38	3 months
Total							\$ 17,576,457	2.55%	\$ 447,939.64	

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	5	\$ 1,162,500	2.94%	\$ 34,177.50	12 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-17	5	\$ 2,325,000	3.21%	\$ 18,658.13	3 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-17	5	\$ 2,698,887	3.04%	\$ 41,023.08	6 months
4	Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-17	2	\$ 4,000,000	2.17%	\$ 86,800.00	12 months
5	Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-16	3	\$ 7,654,070	2.18%	\$ 169,763.00	declining balance
6	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-14	expired	\$ 2,325,000	2.93%	\$ 51,036.08	9 months
7	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-14	expired	\$ 2,698,887	2.68%	\$ 36,165.09	6 months
Total							\$ 17,840,457	2.45%	\$ 437,622.87	

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	5	\$ 1,162,500	2.94%	\$ 34,177.50	12 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-14	3	\$ 2,325,000	2.93%	\$ 68,048.10	12 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-14	3	\$ 2,698,887	2.68%	\$ 72,330.17	12 months
4	Term loan - 9520026-06	TD Bank	Third-Party	Variable Rate	3-Feb-16	1	\$ 4,000,000	1.80%	\$ 65,928.75	11 months
5	Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-16	3	\$ 7,900,142	2.18%	\$ 71,759.62	5 months
Total							\$ 18,086,529	1.73%	\$ 312,244.14	low due to partial yr loan

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	5	\$ 1,162,500	2.94%	\$ 34,177.50	12 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	4-Jul-14	3	\$ 2,325,000	2.93%	\$ 68,048.10	12 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	16-Oct-14	3	\$ 2,698,887	2.68%	\$ 72,330.17	12 months
Total							\$ 6,186,387	2.82%	\$ 174,555.77	

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	5	\$ 1,162,500	2.94%	\$ 34,177.50	12 months
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	4-Jul-14	3	\$ 2,325,000	2.93%	\$ 34,024.05	6 months
3	Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	1-Jul-14	3	\$ 2,698,887	2.68%	\$ 36,165.09	6 months
4	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	4-Jul-13	expired	\$ 2,325,000	2.68%	\$ 31,155.00	6 months
6	Promissory note	Town of Parry Sound	Affiliated	Fixed Rate			\$ 3,967,906	7.25%	\$ 143,836.59	6 months
Total							\$ 12,479,293	2.24%	\$ 279,358.23	

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	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-13	5	\$ 1,162,500	2.94%	\$ 25,633.13	9 months interest
2	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	4-Jul-13	1	\$ 2,325,000	4.17%	\$ 48,476.25	6 months
4	Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-08	5	\$ 1,162,500	5.41%	\$ 15,722.81	3 months
5	Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	13-Mar-12	1	\$ 2,325,000	5.03%	\$ 29,236.88	3 months
7	Promissory note	Town of Parry Sound	Affiliated	Fixed Rate			\$ 3,967,906	7.25%	\$ 287,673.19	12 months
Total							\$ 7,455,406	5.46%	\$ 406,742.25	

5.4 COST OF CAPITAL

This evidence summarizes the Capital Structure, method and cost of financing LPDL's capital requirements for 2019 Test Year.

5.4.1 CAPITAL STRUCTURE

The proposed cost rates for cost of capital in 2019 Test Year are presented in Table 5 below. The rates shown for short-term debt and ROE are those set out in the Board's letter of November 23, 2017, *"Cost of Capital Parameter Updates for 2018 Cost of Service Applications"*.

In calculating the Cost of Capital, LPDL 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 November 23, 2017, for the allowed ROE. LPDL is not seeking any changes in its Capital Structure from its 2013 Board Approved Structure other than the rates which are imposed by the OEB.

Table 5: 2019 Deemed Capital Structure

Particulars	Debt/Equity Ratio	Cost Rate
		(%)
Debt		
Long-term Debt	56%	3.11%
Short-term Debt	4%	2.29%
Total Debt	60%	3.06%
Equity		
Common Equity	40%	9.0%
Preferred Shares	0%	
Total Equity	40%	9.0%
WACC	100%	5.43%

5.4.2 RETURN ON EQUITY

LPDL has used a ROE of 9.0% for 2019 Test Year as established by the Board for Cost of Service applications with a 2018 implementation date, in its letter of November 23, 2017. LPDL recognizes that the ROE will be updated in accordance with Board guidelines and as such commits to updating the Cost of Capital parameters as new information is made available.

5.4.3 WEIGHTED AVERAGE COST OF LONG TERM DEBT

LPDL proposes a Long-Term Debt cost rate for the 2019 Test Year of 3.11%, which was calculated using a weighted average cost of debt as shown in Table 6: Derivation of Long Term Debt Rate below.

Table 6: Derivation of Long Term Debt Rate

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
Term loan - 9520026-03	TD Bank	Third-Party	Fixed Rate	14-Mar-18	5	\$ 1,162,500	3.62%	\$ 42,082.50	12 months
Term loan - 9520026-09	TD Bank	Third-Party	Fixed Rate	16-Oct-17	5	\$ 2,325,000	3.21%	\$ 74,632.50	12 months
Term loan - 9520026-10	TD Bank	Third-Party	Fixed Rate	4-Jul-17	5	\$ 2,698,887	3.04%	\$ 82,046.16	12 months
Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-17	2	\$ 4,000,000	2.17%	\$ 7,233.33	1 month
Term loan - 9520026-06	TD Bank	Third-Party	Fixed Rate	3-Feb-19	5	\$ 4,000,000	3.62%	\$ 132,733.33	11 months
Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-16	3	\$ 7,258,070	2.18%	\$ 92,929.84	declining balance
Term loan - 9520026-12	TD Bank	Third-Party	Fixed Rate	11-Jul-19	3	\$ 7,126,070	3.62%	\$ 107,484.89	as per most recent renewal
						\$ 17,312,457	3.11%	\$ 539,142.56	

The 3.11% is computed based on the weighted average of the following:

- The actual rate of 3.62% on a \$1,162,500 5 year term loan through TD Bank, due March 2023
- The actual rate of 3.21% on a \$2,325,000 5 year term loan through TD Bank, due October 2022
- The actual rate of 3.04% on a \$2,698,887 5 year term loan through TD Bank, due July 2022
- The actual rate of 2.17% on a \$4,000,000 2 year term loan through TD Bank, due February 2019 (1 month of interest)
- The estimated rate of 3.62% on a \$4,000,000 5 year term loan through TD Bank, due February 2024 (11 months of interest)
- The actual rate of 2.18% on a \$7,258,070 3 year declining balance loan through TD Bank, due July 2019 – 6 months of interest on declining balance

- g) The estimated renewal rate of 3.62% on the declining balance loan of \$7,146,473,
renewed for 3 years – 6 months of interest on declining balance

5.4.4 LONG-TERM DEBT

LPDL has five long-term debt instruments, all of which are now with a recognized financial institution at reasonably low rates and medium length terms. Four of these term loans are interest only and one has principal and interest payments.

The former PSP had a promissory note with the Town of Parry Sound of \$2,698,887 at a rate of 7.25%. This was collapsed upon amalgamation and a term loan for the same amount was taken out with TD Bank at a significantly reduced rate. All of LPDL's long-term debt instruments are now held with TD Bank.

The weighted average long-term rate is 3.11% which is significantly lower than the long term Rate of 4.16% as identified in the *"Cost of Capital Parameter updates for 2018 Cost of Service Application"*, dated November 23, 2017. A copy of the existing booking confirmations are included in Appendix A.

LPDL has no affiliated debt and is not forecasting any new debt in the bridge and test year.⁶

5.4.5 SHORT-TERM DEBT

LPDL is requesting a short term debt rate of 2.29% for 2019 Test Year in accordance with the *"Cost of Capital Parameter updates for 2018 Cost of Service Application"*, issued by the Board on November 23, 2017. LPDL understands that the Board will provide future updates to the Cost of Capital parameters applicable to 2019 Cost of Service Applications. LPDL's use of a Short Term Debt of 2.29% is without prejudice to any revisions that may be adopted by the Board in late 2018.

⁶ MFR – Forecast of new debt in bridge and test year - details including estimate of rate

1 LPDL is not proposing any rate that is different from the OEB guidelines, therefore no
2 justification of the proposed rate(s) or key assumptions have been provided.⁷

3 5.4.6 NOTIONAL DEBT

4 The OEB clarified the treatment of “notional” debt (that portion of deemed debt exceeding a
5 utility’s actual debt), where notional debt is used as the “plug” to true up actual debt to the
6 allowed debt thickness for rate-setting purposes. Notional debt can be either positive (i.e.
7 deemed debt is greater than actual debt) or negative (where deemed debt is less than actual
8 debt). The concept and marginal loss on debt is detailed in Table 7: Derivation Notional Debt
9 below.⁸

10 **Table 7: Derivation of Notional Debt**

		(%)	Debt	Interest
Long Term Debt				
Deemed Long Term Debt		56.00%	\$16,834,013	\$523,538
Actual Long Term Debt		57.59%	\$17,312,457	\$539,143
Notional Debt			(\$478,444)	(\$15,605)
Rate Base			\$30,060,737	

⁷ MFR - If proposing any rate that is different from the OEB guidelines, a justification of the proposed rate(s), including key assumptions

⁸ MFR Notional Debt - difference between actual debt and deemed debt thickness attracts the weighted average cost of actual long-term debt rate (unless 100% equity financed)

5.5 NOT FOR PROFIT ORGANIZATIONS

LPDL is a “for profit” utility and as such all requirements related to a not-for-profit organization do not apply.^{9 10 11 12 13}

⁹ MFR – Not for profit evidence N/A

¹⁰ MFR - Description of the governance of the not-for-profit corporation N/A

¹¹ MFR - Detailed calculation for test year revenue requirement based on its Reserve Requirement N/A

¹² MFR - The proposed reserves and rationale for the need to establish each reserve, the time period of building up the reserves, and the procedure and policy of each reserve N/A

¹³ MFR - If there are approved reserves from previous OEB decisions provide the following:

- any changes to the reserve policies and rationale for the changes since last CoS limits of any capital and/or operating reserves as approved by the OEB and identify decisions
- current balances of any established capital and/or operating reserves
- list withdrawals from capital and operating reserves, identify amounts and purpose of withdrawal
- if limits on capital and operating reserves achieved provide a proposal for utilization of amounts
- if limits on reserves not achieved provide rationale and the detail for its forecast of the Reserve Requirement for the test year

APPENDICES¹⁴

APPENDIX A: Booking Confirmations for 4 tranches:

3/16/2018

Booking Information

Borrower Name:	Lakeland Power Distribution Ltd.
CBC #:	2077
RM:	Eleni Panoulis
Transit #:	
Loan Number #:	9520026-03
Notional Amount (CAD):	\$1,162,500.00
Rate Term Start Date:	16-Mar-2018
Rate Term End Date:	14-Mar-2023
Contractual Term Start Date:	16-Mar-2018
Contractual Term End Date:	14-Mar-2023
Term:	60 months
Amortization:	INTEREST ONLY
Compounding:	Semi-Annually
Customer Rate:	3.62%

¹⁴ Copies of promissory notes or other debt arrangements with affiliates

10/24/2017

Booking Information

Borrower Name: Lakeland Power Distribution Ltd
CBC #: 2077
RM: Eleni Panoulis
Transit #: 2664
Loan Number #: 9520026-09
Notional Amount (CAD): 2,325,000.00
Start Date: 10/24/2017
Term: 5yr
Amortization: n/a
Credit Spread: 0.75%
Compounding: Semi-Annual
COF Rate: 2.46%
All-in Customer Rate: 3.21%

1 Please use this email as a confirmation that the rate has been booked.

Please note the below COF has been provided to be booked for

7/14/2017

Booking Information:

Borrower Name: Lakeland Power Distribution Ltd.
CBC #: 2077
RM: Eleni Panoulis
Loan Transit #: N/A
Loan Number #: 9520026-10
Notional Amount (CAD): \$2,698,887
Start Date: 7/14/2017
Term: 5 years
Amortization: Non-amortizing
Credit Spread: 0.750%
Compounding: Semi-Annual
COF Rate: 2.29%
All-in Customer Rate: 3.04%

2 Please use this email as a confirmation that the rate has been booked.

Please note the below COF has been provided to be booked for

2/3/2017

Booking Information:

Borrower Name:	Lakeland Power Distribution
CBC #:	2077
RM:	Eleni Panoulis
Loan Transit #:	2077
Loan Number #:	9520026-06
Notional Amount (CAD):	4,000,000.00
Start Date:	3-Feb-17
Term:	2 years
Amortization:	Interest only with bullet payment at maturity
Credit Spread:	0.75%
Compounding:	Semi-Annual
COF Rate:	1.42%
All-in Customer Rate:	2.17%

Please use this email as a confirmation that the rate has been booked.

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