



## EXHIBIT 5 – COST OF CAPITAL

2021 Cost of Service

Wellington North Power Inc.  
EB-2020-0061

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## 5.1 CAPITAL STRUCTURE

In this Exhibit, Wellington North Power Inc. (WNP) presents evidence regarding its capital structure, its debt financing and the calculation of its return on equity for the 2021 Test Year.

WNP seeks to recover a weighted average cost of capital of 5.68% through rates in the 2021 Test Year. The utility 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 applicable cost of capital.<sup>1</sup>

In calculating the applicable cost of capital, WNP has used:

- The OEB’s deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity;
- The most recent published allowed return on equity (ROE) rate of 8.52% as per the OEB’s prescribed Cost of Capital Parameters published for 2020 Cost of Service applications.<sup>2</sup>

WNP acknowledges the OEB will most likely update the ROE for 2021 at a later date, and therefore the utility commits to updating its’ Application to reflect the OEB’s updated Cost of Capital Parameters for 2021 applications and as new information is issued, to the extent that updated information is applicable to the Application. The Applicant acknowledges that the RoE for 2021 may be artificially deflated because of the COVID-19 pandemic; however WNP assumes that the OEB will apply a mechanism to protect the utility from embedding a potentially abnormally low RoE in its’ rates for the next 5 years.

WNP is not seeking any changes in its Capital Structure from its 2016 Board Approved Structure.<sup>3</sup>

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<sup>1</sup> 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

<sup>2</sup> OEB “2020 Cost of Capital Parameters Updates” letter (October 31, 2019), Value for Applications for rate changes in 2020 ROE 8.52%

<sup>3</sup> MFR – Explanation for any changes in capital structure

1 WNP's cost of capital for 2021 Test Year has been calculated as 5.68% as per below:

2 **Table 1 - Overview of Capital Structure<sup>4</sup>**

<i><b>Particulars</b></i>	<i><b>Cost Rate</b></i>
	(%)
<b><i>Debt</i></b>	
<i>Long-term Debt</i>	3.87%
<i>Short-term Debt</i>	2.75%
<b>Total Debt</b>	<b>3.79%</b>
<b><i>Equity</i></b>	
<i>Common Equity</i>	8.52%
<i>Preferred Shares</i>	
<b>Total Equity</b>	<b>8.52%</b>
<b>Weighted Average Cost of Capital (WACC)</b>	<b>5.68%</b>

3 All rates above are consistent with the letter issued by the OEB on October 31, 2019 and the  
4 Applicant is not proposing any rate different to the OEB guidelines<sup>5</sup>. For rate-making purposes,  
5 the utility used a weighted debt rate of 3.79% as a long-term debt rate.

6 Retirements of debt or preference shares and buy-back of common shares; and Short-Term Debt,  
7 Long-Term Debt, preference shares as well as common share offerings do not apply to WNP  
8 because the utility does not issue any preference shares and common equity shares.

9

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<sup>4</sup> MFR – Calculation of cost for each capital component

<sup>5</sup> MFR - If proposing any rate that is different from the OEB guidelines, a justification of the proposed rate(s), including key assumptions

## 5.2 OEB APPENDIX 2-OA CAPITAL STRUCTURE / COST OF CAPITAL

Appendix 2-OA below presents the capital structure for the last Board Approved year (2016) and the Test Year (2021).<sup>6</sup>

**Table 2 - OEB Appendix 2-OA Capital Structure/Cost of Capital**

Appendix 2-OA Capital Structure and Cost of Capital				
	Test Year	2021		
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
<b>Debt</b>				
Long-term Debt	56.00%	\$6,888,930	3.87%	\$266,395
Short-term Debt	4.00%	\$492,066	2.75%	\$13,532
<b>Total Debt</b>	60.0%	\$7,380,997	3.79%	\$279,927
<b>Equity</b>				
Common Equity	40.00%	\$4,920,665	8.52%	\$419,241
Preferred Shares		\$ -		\$ -
<b>Total Equity</b>	40.0%	\$4,920,665	8.52%	\$419,241
<b>Total</b>	100.0%	\$12,301,661	5.68%	\$699,167
Last OEB-approved year				
		2016		
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
<b>Debt</b>				
Long-term Debt	56.00%	\$5,293,244	4.02%	\$212,788
Short-term Debt	4.00%	\$378,089	1.65%	\$6,238
<b>Total Debt</b>	60.0%	\$5,671,333	3.86%	\$219,027
<b>Equity</b>				
Common Equity	40.00%	\$3,780,888	9.19%	\$347,464
Preferred Shares		\$ -		\$ -
<b>Total Equity</b>	40.0%	\$3,780,888	9.19%	\$347,464
<b>Total</b>	100.0%	\$9,452,221	5.99%	\$566,491

<sup>6</sup> MFR – Completed Appendix 2-OA for last OEB approved and test year

## 5.3 OEB APPENDIX 2-OB COST OF DEBT INSTRUMENTS

Appendix 2-OB below presents capital structure for all required historical years, the Bridge Year (2020) and Test Year (2021), illustrating the weighted average cost of long-term debt <sup>7</sup>

**Table 3 - OEB Appendix 2-OB Cost of Debt Instruments**

Appendix 2-OB Debt Instruments										
This table must be completed for all required historical years, the bridge year and the test year.										
Year 2021										
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985,016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 479,579	4.42%	\$ 21,197.38	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 952,755	4.49%	\$ 42,778.69	
4	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 982,512	3.28%	\$ 32,554.40	
5	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 472,414	3.47%	\$ 16,392.77	
6	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 478,943	3.27%	\$ 15,661.43	
7	MS3 Substation Replacement (2018) Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	1-Mar-18	30	\$ 803,802	3.69%	\$ 29,660.30	
8	MS3 Substation Replacement (2018) Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	15/Nov/18	30	\$ 816,572	3.96%	\$ 32,336.23	
9	Vehicle Loan	TD Bank	Third-Party	Fixed Rate	1/Sep/20	6	\$ 330,000	2.66%	\$ 8,778.00	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$6,311,592	3.87%	\$244,078.93	
Year 2020										
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985,016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 565,873	4.42%	\$ 25,011.56	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 976,953	4.49%	\$ 43,865.20	
4	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 1,019,757	3.28%	\$ 33,448.04	
5	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 488,650	3.47%	\$ 16,956.14	
6	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 495,224	3.27%	\$ 16,193.83	
7	MS3 Substation Replacement (2018) Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	1-Mar-18	30	\$ 820,597	3.69%	\$ 30,280.03	
8	MS3 Substation Replacement (2018) Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	15/Nov/18	30	\$ 832,356	3.96%	\$ 32,961.31	Pro-rated interest amount
9	Vehicle Loan	Infrastructure Ontario	Third-Party	Fixed Rate	1/Sep/20	7	\$ 340,000	3.20%	\$ 1,813.33	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$6,524,426	3.759%	\$245,249.18	
Year 2019										
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985,016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 648,442	4.42%	\$ 28,661.13	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 1,000,091	4.49%	\$ 44,904.10	
4	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 1,046,124	3.28%	\$ 34,312.88	
5	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 504,332	3.47%	\$ 17,500.33	
6	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 510,982	3.27%	\$ 16,709.13	
7	MS3 Substation Replacement (2018) Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	1-Mar-18	30	\$ 836,881	3.69%	\$ 30,880.91	
8	MS3 Substation Replacement (2018) Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	15/Nov/18	30	\$ 847,529	3.96%	\$ 33,562.15	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$6,379,398	3.938%	\$251,250.35	

<sup>7</sup> MFR – Completed Appendix 2-OB for historical, bridge and test years

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**Table 4 - OEB Appendix 2-OB Cost of Debt Instruments (continued)**

Appendix 2-OB Debt Instruments										
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	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985 016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 727 448	4.42%	\$ 32 153.19	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	5	\$ 46 833	2.46%	\$ 1 152.08	
4	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 1,022 215	4.49%	\$ 45 897.46	
5	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 1,071 642	3.28%	\$ 35 149.85	
6	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 519 481	3.47%	\$ 18 025.98	
7	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 526 234	3.27%	\$ 17 207.87	
8	MS3 Substation Replacement (2018) Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	1-Mar-18	30	\$ 850 000	3.69%	\$ 31 385.00	Pro-rated interest amount
9	MS3 Substation Replacement (2018) Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	15/Nov/18	30	\$ 850 000	3.96%	\$ 33 680.00	Pro-rated interest amount
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$6,598,868	3.930%	\$259,331.15	

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	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985 016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 803 044	4.42%	\$ 35,494.52	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	5	\$ 153 945	2.46%	\$ 3,787.06	
4	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 1,043 369	4.49%	\$ 46,847.29	
5	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 1,096,337	3.28%	\$ 35,959.86	
6	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 534,113	3.47%	\$ 18,533.73	
7	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 540,996	3.27%	\$ 17,690.58	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$5,156,821	3.937%	\$203,032.76	

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	Promissory Note	Township of Wellington North	Affiliated	Fixed Rate	1-Nov-01		\$ 985 016	4.54%	\$ 44,719.73	
2	Smart Meter Funding	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jun-11	15	\$ 875 377	4.42%	\$ 38,691.66	
3	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	5	\$ 261 058	2.46%	\$ 6,422.03	
4	Capital Projects (2008 & 2009) - Re-Financing	Infrastructure Ontario	Third-Party	Fixed Rate	2-Dec-13	30	\$ 1,063 597	4.49%	\$ 47,755.51	
5	MS2 Substation Replacement (2014)	Infrastructure Ontario	Third-Party	Fixed Rate	2-Apr-15	30	\$ 1,120 236	3.28%	\$ 36,743.74	
6	Secondary 44kV Feeder - Loan 1	Infrastructure Ontario	Third-Party	Fixed Rate	2-May-16	25	\$ 363 958	3.47%	\$ 12,629.34	
7	Secondary 44kV Feeder - Loan 2	Infrastructure Ontario	Third-Party	Fixed Rate	2-Nov-16	25	\$ 91 568	3.27%	\$ 2,984.26	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$4,760,810	3.990%	\$189,956.27	

2  
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## 5.4 COST OF CAPITAL

Below is a summary of the capital structure, method and cost of financing WNP's capital requirements for Test Year 2021.

### 5.4.1 CAPITAL STRUCTURE

The proposed rates for the cost of capital in the Test Year 2021 are presented in Section 5.4.

The rates shown for short-term, long-term debt and return on equity are those set out in the most recent published Cost of Capital Parameters (October 31<sup>st</sup> 2019 for 2020 applications).<sup>8</sup>

(WNP acknowledges the OEB will most likely update the ROE for 2021 at a later date, and therefore the utility commits to updating its' Application to reflect the OEB's updated Cost of Capital Parameters for 2021 applications and as new information is issued, to the extent that updated information is applicable to the Application.)

### 5.4.2 RETURN ON EQUITY

WNP has used a Return on Equity (ROE) of 8.52% for Test Year 2021 as established by the Board for Cost of Service applications with a January 1<sup>st</sup>/May 1<sup>st</sup> 2020 implementation date. WNP acknowledges that in the normal course the Board will issue a new deemed ROE for Cost of Service applications with a January 1<sup>st</sup>/May 1<sup>st</sup> 2021 implementation date with the expectation that WNP will update its application to reflect the new deemed ROE. However, WNP is concerned that the new deemed ROE for 2021 implementation dates will be materially affected by COVID-19's impact on the economy, such that it would be reasonable to allow for some relief for rate filers like WNP

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<sup>8</sup> OEB "2020 Cost of Capital Parameters Updates" letter (October 31, 2019), Value for Applications for rate changes in 2020 ROE 8.52%



for whom 2021 is the Test Year for a 5 year period. In WNP's opinion, this issue is generic and equally applicable to all LDC's filing Cost of Service rate applications for rate years 2021 and 2022.

Accordingly, while WNP proposes to update the deemed ROE for its' 2021 Test Year in the normal course so that the ROE embedded in its' 2021 Test Year rates properly reflect the economic conditions within which WNP expects to operate in 2021, WNP also proposes that it be allowed an opportunity to apply for an adjustment to its' embedded ROE in a future IRM application to reflect the Canadian economy's recovery from COVID-19 related impacts. WNP proposes that it be allowed to seek such an adjustment once during the IRM period at a time when the Board's deemed ROE exhibits material recovery from the impacts of COVID 19.

#### 5.4.3 WEIGHTED AVERAGE COST OF DEBT

WNP proposes a weighted average cost of debt of 5.68% based on the calculations as illustrated in the table below.

**Table 5 - Derivation of WACC**

<i><b>Particulars</b></i>	<i><b>Cost Rate</b></i>
	(%)
<i><b>Debt</b></i>	
<i>Long-term Debt</i>	3.87%
<i>Short-term Debt</i>	2.75%
<i><b>Total Debt</b></i>	<b>3.79%</b>
<i><b>Equity</b></i>	
<i>Common Equity</i>	8.52%
<i>Preferred Shares</i>	
<i>Total Equity</i>	8.52%
<b>Weighted Average Cost of Capital (WACC)</b>	<b>5.68%</b>

#### 5.4.4 LONG-TERM DEBT

WNP is not forecasting any new long-term debt in the Bridge Year (2020 or the Test Year (2021)).<sup>9</sup>

WNP's Long Term Debt instruments are summarized below. *(For a numerical presentation, refer to section 5.4).*<sup>10</sup>

- **Promissory Note** – The remaining amount of \$985,016 has an interest rate that matches the Cost of Capital parameters issued by the OEB.

This debt is held by the majority shareholder, the Township of Wellington North and no principal is currently being paid. WNP has filed a copy of the Promissory Note with the Township of Wellington North as Appendix 5A.<sup>11</sup>

*(The full Promissory Note to Wellington North Power Inc. secondary shareholder, Township Southgate, in the amount of \$49,388 has been repaid.)*

In WNP's 2016 Cost of Service application (EB-2015-0110), in the Settlement Proposal filed March 4, 2016, Section 2.1.1 Cost of Capital it reads:

- *"Affiliate Debt interest rate to be held at the OEB's current long-term debt rate of 4.54% for the period of this (2016) cost of service application and for the period of the next rebasing cost of service rate application or customer IR application."*<sup>12</sup>

In the Board's Decision and Rate Order of the same proceeding, issued March 31, 2016, under subsection 3.1 Settlement Proposal – Findings, it reads:

*"The OEB accepts the cost consequences of the settlement agreement and OEB staff's analysis in support of its submission that the settlement proposal reflects the public interest."*<sup>13</sup>

Consequently, WNP requests that the affiliate debt interest rate (*i.e. the Promissory Note to the Township of Wellington North*) remains at 4.54% for this Cost of Service application.

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<sup>9</sup> MFR – Forecast of new debt in bridge and test year - details including estimate of rate

<sup>10</sup> MFR – Explanation of debt rate for each existing debt instrument

<sup>11</sup> MFR - Copies of promissory notes or other debt arrangements with affiliates

<sup>12</sup> Wellington North Power Inc. Settlement Proposal EB-2015-0110, filed March 4<sup>th</sup> 2016, Section 2.1.1 Cost of Capital, page 29

<sup>13</sup> Decision and Rate Order, EB-2015-0110, section 3. Decision on the Issues, sub-section 3.1 Settlement Proposal - Findings page 5 (March 31, 2016)

○ **Ontario Infrastructure & Lands Corporation Convertible Loan – Smart Meters.**

WNP borrowed \$1,200,000 in 2011 to fund smart meter investments. The loan was for a 15 year period with interest at 4.42%. Repayment of the fixed rate long-term loan is made through blended (i.e., principal and interest) monthly payments of \$9,130.93.

The average outstanding principal amount for 2021 is \$479,579.

○ **Ontario Infrastructure & Lands Corporation Convertible Loan – CapEx Re-Financing.**

WNP borrowed \$1,112,607 in 2013 to fund capital projects that had previously been completed. The loan was for a 30 year period with interest at 4.49%. Repayment of the fixed rate long-term loan is made through blended (i.e., principal and interest) monthly payments of \$5,630.81. The average outstanding principal amount for 2021 is \$952,755.

○ **Ontario Infrastructure & Lands Corporation Convertible Loan – MS2 Substation.**

WNP borrowed \$1,150,000 in 2015 to fund the MS2 Substation rebuild that was completed in 2014. The loan was for a 30 year period with interest at 3.28%. Repayment of the fixed rate long-term loan is made through blended (i.e., principal and interest) monthly payments of \$5,023.83. The average outstanding principal amount for 2021 is \$992,512.

○ **Ontario Infrastructure & Lands Corporation Convertible Loan – 2<sup>nd</sup> 44kV Feeder.**

In 2016, WNP worked with Hydro One Networks Inc. (HONI) to address capacity concerns with the electrical supply to the town of Mount Forest. The solution was to build approximately 11 kilometers of pole line to connect a 44kV feeder from Palmerston TS to WNP's distribution system. The project received approval from the OEB and Intervenor who presided over WNP's 2016 Cost of Service rate application (EB-2015-0110) and was planned to be started and completed during 2016. The 2<sup>nd</sup> line 44kV feeder was energized and in-service in December 2016.

WNP financed their portion of the project, at a cost of \$1,100,000, using two loans secured from Ontario Infrastructure & Lands Corporation:

- The 1<sup>st</sup> loan was for \$550,000 secured in May 2016 for a term period of 25 years with an interest rate of 3.47%. Repayment of the fixed rate long-term loan is made through

1           blended (i.e., principal and interest) monthly payments of \$2,744.59. The average  
2           outstanding principal amount for 2021 is \$472,414.

- 3           • The 2<sup>nd</sup> loan was for \$550,000 secured in Nov 2016 for a term period of 25 years with  
4           an interest rate of 3.27%. Repayment of the fixed rate long-term loan is made through  
5           blended (i.e., principal and interest) monthly payments of \$2,686.05. The average  
6           outstanding principal amount for 2021 is \$478,943.

7  
8           ○ **Ontario Infrastructure & Lands Corporation Convertible Loan** – MS3 Substation.

9           WNP borrowed \$1,700,000 in 2018 to fund the MS3 Substation rebuild that was completed  
10          in 2018.

11          WNP financed the project, using two loans secured from Ontario Infrastructure & Lands  
12          Corporation:

- 13          • The 1<sup>st</sup> loan was for \$850,000 secured for a term period of 30 years with an interest  
14          rate of 3.69%. Repayment of the fixed rate long-term loan is made through blended  
15          (i.e., principal and interest) monthly payments of \$3,907.60. The average outstanding  
16          principal amount for 2021 is \$803,802.
- 17          • The 2<sup>nd</sup> loan was for \$550,000 secured for a term period of 30 years with an interest  
18          rate of 3.96%. Repayment of the fixed rate long-term loan is made through blended  
19          (i.e., principal and interest) monthly payments of \$4,038.46. The average outstanding  
20          principal amount for 2021 is \$816,572.

1 Forecast for new debt in the Bridge Year 2020:<sup>14</sup>

2     ○ **TD Canada Trust – TD Equipment Loan** – Bucket Truck (Bridge Year 2020)

3         WNP has secured a short-term loan of \$330,000 with a term period of 7-years in the Bridge  
4         Year (2020) to finance the purchase of a replacement bucket truck. The loan has been  
5         arranged through a financial institution with an interest rate of 2.66%. Repayment of the  
6         fixed rate long-term loan is made through blended (i.e., principal and interest) monthly  
7         payments of \$4,310.01.

8 Forecast for new debt in the Test Year 2021:<sup>15</sup>

9 WNP does not anticipate the requirement for any new debt in the Test Year 2021.

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<sup>14</sup> MFR – Forecast of new debt in bridge and test year - details including estimate of rate

<sup>15</sup> MFR – Forecast of new debt in bridge and test year - details including estimate of rate

#### 5.4.5 SHORT-TERM DEBT

WNP is not forecasting any new short-term debt in the Test Year (2020).<sup>16</sup>

WNP's Short Term Debt instruments are summarized below.

- **Revolving Line of Credit:** WNP has access to a revolving line of credit facility in the amount of \$1,500,000 that is secured by a general security agreement over the Corporation's assets.
- **Letter of Credit:** WNP has obtained a Letter of Credit from a Canadian bank in the amount of \$558,879 that has been issued in favour of the Independent Electricity System Operator (IESO). This Letter of Credit financially secures the Corporation's electricity purchases from the IESO, who has not drawn on this credit instrument.

#### **Not-For-Profit**

Note that WNP is not a cooperative and as such, all requirements related to a not-for-profit organization do not apply.<sup>17</sup>

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<sup>16</sup> MFR – Forecast of new debt in bridge and test year - details including estimate of rate

<sup>17</sup> MFR – Not for profit evidence N/A

#### 5.4.6 NOTIONAL DEBT

Notional debt can arise for a number of reasons such as the difference between actual capital assets and regulatory rate base due to the addition of the formulaic working capital allowance. The OEB has clarified the treatment of “notional” debt as the difference between the utility’s weighted average cost of the actual long-term debt versus the deemed debt.<sup>18</sup>

WNP has calculated the Notional Debt to be a positive amount of \$29,071 (notional debt of \$279,681 less weighted cost of actual debt of \$250,610) meaning the utility’s weighted average cost of the actual long-term debt being greater than actual debt, as summarized in the table below:

**Table 6 - Notional Debt**

Actual Debt				Notional Debt			
Capitalization Ratio		Cost Rate	Return	Capitalization Ratio		Cost Rate	Return
(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)
56.00%	\$6,291,592	3.87%	\$243,485	56.00%	\$6,888,930	3.87%	\$266,395
4.00%	\$263,889	2.70%	\$7,125	4.00%	\$492,066	2.70%	\$13,286
60.0%	\$6,555,481	3.82%	\$250,610	40.0%	\$7,380,997	3.79%	\$279,681

WNP confirms there is no profit or loss on redemption debt.<sup>19</sup>

<sup>18</sup> Notional Debt - should attract the weighted average cost of actual long-term debt rather than the current deemed long-term debt rate issued by the OEB

<sup>19</sup> MFR - Profit or loss on redemption of debt

## 1 APPENDICES

### 2 List of Appendices

Appendix 5A	Promissory Note to the Township of Wellington North

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1 APPENDIX 5A PROMISSORY NOTE

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## PROMISSORY NOTE

Principal Sum: **\$1,585,016.00**

**FOR VALUE RECEIVED**, the undersigned hereby unconditionally promises to pay to the order of the Corporation of the Township of Wellington North (the “**Township**”) on demand by the Township the principal sum of **\$1,585,016.00 DOLLARS** (the “**Principal Sum**”) in lawful money of Canada at [7490 Sideroad 7 West], Kenilworth, Ontario or such other place as the Township may designate by notice in writing to the undersigned and to pay interest on the Principal Sum at the rate of 7.25 % per annum calculated and accruing on the principal amount remaining unpaid and overdue interest, if any from [November 1, 2001] until the Principal Sum is repaid to the Township. Interest shall be calculated and payable quarterly in arrears on [the last day of March, June, September and December] at the same address with the first interest payment payable on [March 31, 2002]. Interest both before and after default and judgment on the principal amount and overdue interest shall be payable at the aforementioned rate. For greater certainty, no interest shall accrue or be payable by the undersigned to the Township on the Principal Sum for the date hereof to [November 1, 2001].

All payments or any part thereof may be extended, rearranged, renewed or postponed by the Township. No delay or failure by the Township to exercise any right or remedy against the undersigned shall be construed as a waiver of that or any right or remedy nor shall any waiver hereunder be deemed to be a waiver of subsequent default. The Township may, at any time, in accordance with the provisions of Township By-Law 32-2000, as amended, by By-Law 51-00 and By-Law 54-2000 and after consultation with the undersigned, replace this promissory note for one or more debt instruments of the undersigned with any change to any provision hereunder, including reducing or increasing the rate of interest payable on the principal amount owing at the time of replacement, setting a date on which the principal amount hereunder is due and payable or adjusting the principal sum payable hereunder, all as evidenced by the written acceptance by said debt instrument or instruments by the Treasurer of the Township.

The undersigned hereby waives presentment, demand, protest or other notice of every kind in the enforcement of this promissory note. All amounts owing hereunder will be paid by the undersigned without regard for any equities between the undersigned and the Township or any right of set-off or cross-claim.

In the event of a default hereunder, the undersigned agrees to pay all expenses, including without limitation, reasonable legal fees (on a solicitor and his own client basis), incurred by the Township in endeavoring to enforce its rights hereunder. All such amounts shall bear interest at the rate mentioned above.

This promissory note is non-negotiable and non-assignable without prior written consent of the undersigned.

DATE at Mount Forest, Ontario, as of the 1<sup>st</sup> day of July, 2000.

**WELLINGTON NORTH POWER INC.**

By: \_\_\_\_\_

Chairman

By: \_\_\_\_\_

Secretary