



EXHIBIT 5 – COST OF CAPITAL

2021 Cost of Service

Hearst Power Distribution Company Ltd.
EB-2020-0027

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5.2 CAPITAL STRUCTURE

In this Exhibit, HPDCL presents evidence regarding its capital structure, its debt financing and the calculation of its return on equity for the 2021 Test Year.

HPDCL seeks to recover a weighted average cost of capital of 5.00% through rates in the 2021 Test Year. HPDCL 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.

In calculating the applicable cost of capital, HPDCL 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 9, 2020, for the allowed return on equity ("ROE"). HPDCL is not seeking any changes in its Capital Structure from its 2015 Board Approved Structure.

HPDCL's cost of capital for 2021 has been calculated as 5.00% as shown in the table below:

Table 1 - Overview of Capital Structure

<i>Particulars</i>	<i>Cost Rate</i>
	(%)
<i>Debt</i>	
<i>Long-term Debt</i>	2.85%
<i>Short-term Debt</i>	1.75%
<i>Total Debt</i>	2.78%
<i>Equity</i>	
<i>Common Equity</i>	8.34%
<i>Preferred Shares</i>	
<i>Total Equity</i>	8.34%
<i>WACC</i>	5.00%

All rates above are consistent with the letter issued by the OEB on November 9, 2020. For rate-making purposes, the utility used a weighted debt rate of 5.00% as a long-term debt rate.

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

5.3 OEB APPENDIX 2-OA CAPITAL STRUCTURE / COST OF CAPITAL

Appendix 2-OA below presents the capital structure for the last Board Approved and Test year.

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

Year: **2021**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$1,352,314	2.85%	\$38,541
2	Short-term Debt	4.00% (1)	\$96,594	1.75%	\$1,690
3	Total Debt	60.0%	\$1,448,907	2.78%	\$40,231
	Equity				
4	Common Equity	40.00%	\$965,938	8.34%	\$80,559
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$965,938	8.34%	\$80,559
7	Total	100.0%	\$2,414,846	5.00%	\$120,791

Year: **2020**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$1,269,516	4.77%	\$60,556
2	Short-term Debt	4.00% (1)	\$90,680	2.16%	\$1,959
3	Total Debt	60.0%	\$1,360,196	4.60%	\$62,515
	Equity				
4	Common Equity	40.00%	\$906,797	9.30%	\$84,332
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$906,797	9.30%	\$84,332
7	Total	100.0%	\$2,266,994	6.48%	\$146,847

Year: **2019**

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$1,277,555	4.77%		\$60,939
2	Short-term Debt	4.00%	(1)	\$91,254	2.16%		\$1,971
3	Total Debt	60.0%		\$1,368,809	4.60%		\$62,910
	Equity						
4	Common Equity	40.00%		\$912,539	9.30%		\$84,866
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$912,539	9.30%		\$84,866
7	Total	100.0%		\$2,281,348	6.48%		\$147,777

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Year: **2018**

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$1,213,047	4.77%		\$57,862
2	Short-term Debt	4.00%	(1)	\$86,646	2.16%		\$1,872
3	Total Debt	60.0%		\$1,299,693	4.60%		\$59,734
	Equity						
4	Common Equity	40.00%		\$866,462	9.30%		\$80,581
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$866,462	9.30%		\$80,581
7	Total	100.0%		\$2,166,156	6.48%		\$140,315

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Year: **2017**

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$1,212,191	4.77%		\$57,822
2	Short-term Debt	4.00%	(1)	\$86,585	2.16%		\$1,870
3	Total Debt	60.0%		\$1,298,776	4.60%		\$59,692
	Equity						
4	Common Equity	40.00%		\$865,851	9.30%		\$80,524
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$865,851	9.30%		\$80,524
7	Total	100.0%		\$2,164,627	6.48%		\$140,216

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Year: **2016**

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$1,263,126	4.77%		\$60,251
2	Short-term Debt	4.00%	(1)	\$90,223	2.16%		\$1,949
3	Total Debt	60.0%		\$1,353,349	4.60%		\$62,200
	Equity						
4	Common Equity	40.00%		\$902,233	9.30%		\$83,908
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$902,233	9.30%		\$83,908
7	Total	100.0%		\$2,255,582	6.48%		\$146,108

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Year: **2015**

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$1,292,625	4.77%		\$61,658
2	Short-term Debt	4.00%	(1)	\$92,330	2.16%		\$1,994
3	Total Debt	60.0%		\$1,384,955	4.60%		\$63,653
	Equity						
4	Common Equity	40.00%		\$923,304	9.30%		\$85,867
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$923,304	9.30%		\$85,867
7	Total	100.0%		\$2,308,259	6.48%		\$149,520

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Year: **2015** Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return	
		(%)		(%)		(%)	
	Debt						
1	Long-term Debt	56.00%		\$1,218,600	4.77%		\$58,127
2	Short-term Debt	4.00%	(1)	\$87,043	2.16%		\$1,880
3	Total Debt	60.0%		\$1,305,643	4.60%		\$60,007
	Equity						
4	Common Equity	40.00%		\$870,429	9.30%		\$80,950
5	Preferred Shares			\$ -			\$ -
6	Total Equity	40.0%		\$870,429	9.30%		\$80,950
7	Total	100.0%		\$2,176,072	6.48%		\$140,957

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5.4 OEB APPENDIX 2-OB COST OF DEBT INSTRUMENTS

HPDCL has one long term load in place at the of 2020 and is scheduled to incur a second long-term loan in the first quarter of 2021. The first loan is an ongoing promissory note to the Town of Hearst. The upcoming second long term loan relates to the purchase of a bucket truck.

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

		Year 2021							
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$800,000	0.05913	\$47,307.20
	2021 Bucket truck loan	RBC Bank	Third-Party	Fixed Rate	1-Jan-21	5	\$262,000	0.0285	\$7,467.00
Total							\$800,000	0.05913	\$47,307.20

		YEAR 2020							
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$1,000,000	6.80%	\$68,000.00
Total							\$1,000,000	0.068	\$68,000.00

		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)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$ 1,250,000	6.74%	\$84,263.87
Total							\$ 1,250,000	0.06741	\$84,263.87

		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)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$ 1,250,000	7.43%	\$92,862.50
Total							\$ 1,250,000	0.07429	\$92,862.50

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		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)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$ 1,250,000	6.65%	\$83,162.50
Total							\$ 1,250,000	0.06653	\$83,162.50

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		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)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$ 1,250,000	6.17%	\$77,100.00
Total							\$ 1,250,000	0.06168	\$77,100.00

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		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)
1	Note Payable	Town of Hearst	Affiliated	Variable Rate	1-Jun-01	N/A	\$ 1,250,000	6.34%	\$79,300.00
Total							\$ 1,250,000	0.06344	\$79,300.00

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5.5 COST OF CAPITAL

This evidence summarizes the capital structure, method, and cost of financing HPDCL's capital requirements for 2021.

5.5.1 CAPITAL STRUCTURE

The proposed rates for the cost of capital in 2020 & 2021 are presented in Section 5.4 – Table 2. The rates shown for short-term, long-term debt and return on equity are those set out in the Board's letter November 9, 2020 Cost of Capital Parameter Updates for 2021 Cost of Service Applications. HPDCL is not proposing any rates that are different than the Board prescribed rates.

5.5.2 RETURN ON EQUITY

HPDCL has used a ROE of 8.34% for 2021 as established by the Board for Cost of Service applications with a January 1 and May 1, 2021 implementation date.

5.5.3 WEIGHTED AVERAGE COST OF DEBT

HPDCL proposes a weighted average cost of debt of 5.00% which is based on the calculations as set out in the table below.

Table 4 - Calculation of WACC

<i>Particulars</i>	<i>Cost Rate</i>
	(%)
<i>Debt</i>	
<i>Long-term Debt</i>	2.85%
<i>Short-term Debt</i>	1.75%
<i>Total Debt</i>	2.78%
<i>Equity</i>	
<i>Common Equity</i>	8.34%
<i>Preferred Shares</i>	
<i>Total Equity</i>	8.34%
<i>WACC</i>	5.00%

5.5.4 LONG-TERM DEBT

HPDCL has one long term loan in place at the of 2020 and is scheduled to incur a second long-term loan in the first quarter of 2021. The first loan is an ongoing promissory note to the Town of Hearst. The upcoming second long term loan relates to the purchase of a bucket truck.

The actual rate is higher on the promissory note but equal to the deemed rate for the second loan, therefore the deemed debt rate is used for the purposed of rate making.

HPDCL is not forecasting any other long-term debt in the bridge and test year other than the debt explained above.

5.5.5 SHORT-TERM DEBT

HPDCL has used a short-term debt rate of 1.75% for 2020 as established by the Board for 2020 Cost of Service applications.

Preferred Shares

HPDCL does not forecast that it will redeem any debt and has not issued any preference shares. Hence HPDCL does not record either a profit or loss on redemption of debt and preference shares. HPDCL is not forecasting any new debt in the bridge and test years.

Not-For-Profit

HPDCL is a for profit entity corporation and as such all requirements related to a not-for-profit organization do not apply.

5.5.6 NOTIONAL DEBT

The OEB clarified the treatment of “notional” debt (that portion of deemed debt exceeding a utility’s actual debt), where notional debt is used as the “plug” to true up actual debt to the allowed debt thickness for rate-setting purposes. Notional debt can be either positive (i.e. deemed debt is greater than actual debt) or negative (where deemed debt is less than actual debt). The profit/loss on debt is calculated to be \$14,568 is detailed at Table below.

Table 5 – Deemed Debt

Deemed Debt									
Particulars			Year:		2021				
		Capitalization Ratio					Cost Rate		Return
		(%)				(\$)		(%)	
Debt									
Long-term Debt	56.00%				\$1,352,314		2.85%		\$38,541
Short-term Debt	4.00%		(1)		\$96,594		1.75%		\$1,690
Total Debt	60.0%				\$1,448,907		2.78%		\$40,231

Table 6 – Actual Debt

Actual Debt								
Particulars			Year:		2021			
		Capitalization Ratio				Cost Rate		Return
	(%)				(\$)		(%)	(\$)
Debt								
Long-term Debt		56.00%			\$1,062,000		5.16%	\$54,799
Short-term Debt		4.00%		-(1)	\$ -		0.00%	\$ -
Total Debt		60.0%			\$1,062,000		4.82%	\$54,799

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Table 7 – Notional Debt

<i>Notional Debt</i>								
Particulars				Year:	<u>2021</u>			
	Capitalization Ratio					Cost Rate	Return	
	(%)				(\$)	(%)	(\$)	
Debt								
<i>Long-term Debt</i>	56.00%				\$290,320	2.90%	(\$16,258)	
<i>Short-term Debt</i>	4.00%		-(1)		\$96,594	1.76%	\$1,690	
Total Debt	40.0%				\$386,914	3.34%	(\$14,568)	

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1 **APPENDICES**

2

Appendix A	Promissory Note from Shareholder

3

4

1

Appendix A

2

Promissory Note from Shareholder

PROMISSORY NOTE

Principal: \$1,250,000.00

September 16, 2015

FOR VALUE RECEIVED, the undersigned hereby acknowledges itself indebted and promises to pay to or to the order of The Corporation of the Town of Hearst (the "Holder") the principal sum of One Million Two Hundred and Fifty Thousand Dollars (\$1,250,000.00) in lawful money of Canada at the head office of the undersigned, which sum shall be payable on demand.

For each calendar year, or part thereof, in which this promissory note is outstanding, the undersigned will pay to the Holder in arrears interest in like money on the unpaid portion from time to time of the principal, in an amount equal to the lesser of (i) Prime Rate of the Bank of Canada plus five point five percent (Prime + 5.5%) per annum, calculated monthly, on the unpaid portion from time to time of the principal; and (ii) the undersigned's Net Income for such calendar year or part thereof. For the purposes of this promissory note, "Net Income" means, for any particular period, the amount which would, in accordance with generally accepted accounting principles, be classified on the consolidated income statement of the undersigned for such period as the net income of the undersigned.

Interest as aforesaid for any particular calendar year or part thereof shall become due and be paid on the 1st day of the third month of the following calendar year.

The undersigned may prepay the said principal sum in whole or in part at any time or from time to time without notice, penalty or bonus.

The obligations of the undersigned hereunder shall be absolute and unconditional and shall not be subject to any counter-claim, set-off or other claim whatsoever of the undersigned against the Holder. This promissory note shall enure to the benefit of the Holder and his heirs, executors, administrators, personal legal representatives and assigns and shall be binding upon the undersigned and his heirs, executors, administrators and personal legal representatives.

The undersigned hereby waives the benefits of division and discussion, demand and presentment for payment, notice of non-payment, protest and notice of protest of this promissory note.


This promissory note shall be governed by the laws of the Province of Ontario and shall not be changed, modified, discharged or cancelled orally or in any manner other than by agreement in writing signed by the Holder or its successors or assigns.

This Promissory Note shall overwrite the Promissory Note dated June 1, 2001 for the principal amount of \$1,800,000.

IN WITNESS WHEREOF the undersigned has executed this promissory note as of the day and year first above written.

**HEARST POWER DISTRIBUTION
COMPANY LIMITED**

Per: _____


Jessy Richard
General Manager

Per: _____


Jean-Baptiste Bond
Chairman

PROMISSORY NOTE

Principal: \$1,800,000.00

June 1 , 2001

FOR VALUE RECEIVED, the undersigned hereby acknowledges itself indebted and promises to pay to or to the order of The Corporation of the Town of Hearst (the "Holder") the principal sum of One Million Eight Hundred Thousand Dollars (\$1,800,000.00) in lawful money of Canada at the head office of the undersigned, which sum shall be payable on demand.

For each calendar year, or part thereof, in which this promissory note is outstanding, the undersigned will pay to the Holder in arrears interest in like money on the unpaid portion from time to time of the principal, in an amount equal to the lesser of (i) 12% per annum, calculated monthly, on the unpaid portion from time to time of the principal; and (ii) the undersigned's Net Income for such calendar year or part thereof. For the purposes of this promissory note, "Net Income" means, for any particular period, the amount which would, in accordance with generally accepted accounting principles, be classified on the consolidated income statement of the undersigned for such period as the net income of the undersigned.

Interest as aforesaid for any particular calendar year or part thereof shall become due and be paid on the 1st day of the third month of the following calendar year.

The undersigned may prepay the said principal sum in whole or in part at any time or from time to time without notice, penalty or bonus. All payments received shall be applied first in satisfaction of any accrued but unpaid interest and then against any outstanding principal amount.

The obligations of the undersigned hereunder shall be absolute and unconditional and shall not be subject to any counter-claim, set-off or other claim whatsoever of the undersigned against the Holder. This promissory note shall enure to the benefit of the Holder and his heirs, executors, administrators, personal legal representatives and assigns and shall be binding upon the undersigned and his heirs, executors, administrators and personal legal representatives.

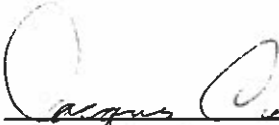
The undersigned hereby waives the benefits of division and discussion, demand and presentment for payment, notice of non-payment, protest and notice of protest of this promissory note.


This promissory note shall be governed by the laws of the Province of Ontario and shall not be changed, modified, discharged or cancelled orally or in any manner other than by agreement in writing signed by the Holder or its successors or assigns.

IN WITNESS WHEREOF the undersigned has executed this promissory note as of the day and year first above written.

**HEARST POWER DISTRIBUTION
COMPANY LIMITED**

Per:


Name: JACQUES LEGENDRE c/s
Title: CHAIRMAN



NICOLE C. LEGENDRE
GENERAL MANAGER

Jan 31/02