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## 1    **5.0 Cost of Capital and Capital Structure**

### 2    **5.1 Overview of Capital Structure**

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4    The purpose of this evidence is to provide an overview of BPI’s capital structure and financing plans for  
5    the 2022 Test Year. Detailed schedules on capital structure and debt issuances can be found in this  
6    Exhibit, Table 5.1-A - Chapter 2 Appendix 2-OA and Table 5.1-B - Chapter 2 Appendix 2-OB. BPI’s capital  
7    structure for ratemaking purposes and the ensuing evidence has been prepared in accordance with the  
8    2021 Filing requirements, the Board’s letter called “2021 Cost of Capital Parameters” dated November  
9    9, 2020 and on the Report of the Board on Cost of Capital for Ontario’s Regulated Utilities (the 2009  
10   Report) issued December 11, 2009. BPI expects further updates for the 2022 Cost of Capital Parameters  
11   will be made prior to OEB’s Decision and Order in this Application.

#### 12   **5.1.1 Capital Structure**

13

14   BPI has a current deemed capital structure of 4% short-term debt with a return of 1.76%, 56% long-  
15   term debt with a return of 4.07% and 40% equity with a return of 8.78% as approved in the 2017 Cost  
16   of Service rate decision EB-2016-0058. There have been no changes to the deemed capital structure  
17   from 2017 to 2022.

18   BPI has prepared this 2022 Cost of Service Application in accordance with the Board’s guidelines  
19   provided in the Report of the Board on Cost of Capital for Ontario’s Regulated Utilities (the “2009  
20   Report”) issued on December 11, 2009. For the purposes of preparing this Application, BPI has used the  
21   cost of capital parameters issued by the Board on November 9, 2020 for 2021 cost of service rate  
22   applications for rates with effective dates in 2021. BPI will update its cost of capital parameter to reflect  
23   future Board issued cost of capital parameters for rates with effective dates in 2022 prior to the issuance  
24   of the Board’s decision for its Application. BPI proposes no deviation from the Board’s cost of capital  
25   methodology.

26   Table 5.1-A is a reproduction of Appendix 2-OA that demonstrates the elements of the Capital Structure  
27   and Cost of Capital for the 2017 Board-Approved and 2022 Test Year.

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Table 5.1-A: OEB Chapter 2 Appendix OA

Appendix 2-OA Capital Structure and Cost of Capital						
This table must be completed for the last OEB-approved year and the test year.						
Test Year: 2022						
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return	
		(%)	(\$)			(%)
	<b>Debt</b>					
1	Long-term Debt	56.00%	\$54,979,871	3.28%	\$1,804,406	
2	Short-term Debt	4.00%	\$3,927,134	1.75%	\$68,725	
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$58,907,004</b>	<b>3.18%</b>	<b>\$1,873,131</b>	
	<b>Equity</b>					
4	Common Equity	40.00%	\$39,271,336	8.34%	\$3,275,229	
5	Preferred Shares		\$ -		\$ -	
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$39,271,336</b>	<b>8.34%</b>	<b>\$3,275,229</b>	
7	<b>Total</b>	<b>100.0%</b>	<b>\$98,178,340</b>	<b>5.24%</b>	<b>\$5,148,360</b>	

Last OEB-approved year: 2017						
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return	
		(%)	(\$)			(%)
	<b>Debt</b>					
1	Long-term Debt	56.00%	\$41,442,091	4.29%	\$1,777,125	
2	Short-term Debt	4.00%	\$2,960,149	1.76%	\$52,099	
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$44,402,240</b>	<b>4.12%</b>	<b>\$1,829,224</b>	
	<b>Equity</b>					
4	Common Equity	40.00%	\$29,601,494	8.78%	\$2,599,011	
5	Preferred Shares		\$ -		\$ -	
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$29,601,494</b>	<b>8.78%</b>	<b>\$2,599,011</b>	
7	<b>Total</b>	<b>100.0%</b>	<b>\$74,003,734</b>	<b>5.98%</b>	<b>\$4,428,235</b>	

**Debt Instruments**

Table 5.1-B is a reproduction of Appendix 2-OB listing BPI's long term debt instruments from 2017 to the 2022 Test Year.

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Table 5.1-B- OEB Chapter 2 Appendix OB Debt Instruments

Year 2017

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	Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-16	5	\$ 24,189,168	4.20%	\$ 1,015,945.06	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,833,054	5.20%	\$ 95,231.54	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,503,821	4.96%	\$ 223,604.77	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 4,157,569	3.53%	\$ 146,722.57	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,652,223	3.92%	\$ 143,264.62	
6	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 2,031,000	5.51%	\$ 111,908.10	
Total							\$ 40,366,836	4.30%	\$ 1,736,676.65	

2

Year 2018

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	Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-16	5	\$ 24,189,168	4.20%	\$ 1,015,945.06	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,753,215	5.20%	\$ 91,180.56	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,449,353	4.97%	\$ 220,941.94	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 3,822,780	3.54%	\$ 135,239.04	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,566,466	3.92%	\$ 139,952.68	
6	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 1,527,500	5.51%	\$ 84,165.25	
Total							\$ 39,308,482	4.29%	\$ 1,687,424.53	

3

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	Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-16	5	\$ 24,189,168	4.20%	\$ 1,015,945.06	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,669,221	5.21%	\$ 86,918.69	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,392,155	4.97%	\$ 218,145.67	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 3,476,307	3.55%	\$ 123,354.75	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,477,331	3.93%	\$ 136,510.32	
6	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 1,010,500	5.51%	\$ 55,678.55	
7	Facility Loan (construction advance)	Royal Bank	Third-Party	Fixed Rate	25-Jul-19	N/A	\$ 3,497,000	2.06%	\$ 72,062.68	
Total							\$ 41,711,682	4.10%	\$ 1,708,615.72	

4

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	Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-16	5	\$ 24,189,168	4.20%	\$ 1,015,945.06	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,580,853	5.21%	\$ 82,434.95	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,332,091	4.97%	\$ 215,209.26	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 3,117,742	3.56%	\$ 111,055.70	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,384,687	3.93%	\$ 132,932.40	
6	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 436,500	5.51%	\$ 24,051.15	
7	Facility Loan (construction advance)	Royal Bank	Third-Party	Fixed Rate	25-Jul-19	N/A	\$ 10,154,750	3.35%	\$ 340,109.59	converted Oct 1/20
Total							\$ 47,195,790	4.07%	\$ 1,921,738.10	

5

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	Corporation of the City of Brantford	Affiliated	Fixed Rate	1-Feb-16	5	\$ 24,189,168	4.20%	\$ 1,015,945.06	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,487,885	5.22%	\$ 77,717.78	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,269,016	4.97%	\$ 212,125.71	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 2,746,663	3.58%	\$ 98,327.43	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,288,393	3.93%	\$ 129,213.57	
6	Powerline Municipal Transformer Station B	Royal Bank	Third-Party	Fixed Rate	31-Jan-06	15	\$ 74,500	5.51%	\$ 4,104.95	
7	Facility Loan	Royal Bank	Third-Party	Fixed Rate	1-Oct-20	25	\$ 13,046,500	3.11%	\$ 405,214.88	
Total							\$ 49,102,126	3.96%	\$ 1,942,649.37	

6

Year

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	Corporation of the C	Affiliated	Fixed Rate	1-Feb-21	5	\$ 24,189,168	2.85%	\$ 689,391.29	start date is last renewal
2	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-07	25	\$ 1,390,077	5.23%	\$ 72,755.03	
3	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	1-Dec-10	40	\$ 4,202,781	4.97%	\$ 208,887.64	
4	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	18-Nov-09	15	\$ 2,362,634	3.60%	\$ 85,154.94	
5	General borrowings	Ontario Infrastructure	Third-Party	Fixed Rate	3-Dec-12	30	\$ 3,188,308	3.93%	\$ 125,348.30	
6	Facility Loan	Royal Bank	Third-Party	Fixed Rate	1-Oct-20	25	\$ 12,508,500	3.11%	\$ 388,590.68	
	Total						\$ 47,841,469	3.28%	\$ 1,570,127.87	

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2 With the exception of the Promissory Note, the principal balances entered above are based on the  
 3 average principal amount in the year, and the interest rates entered are the rate necessary to obtain the  
 4 projected interest payment for the year. These rates are slightly different than the contracted rates due  
 5 to applying the rates on a semi-annual basis, to applying the rates to the average principal amount, etc.

1 **5.2 Cost of Capital (Return on Equity and Cost of Debt)**

2 **5.2.1 Cost of Capital (Return on Equity and Cost of Debt)**  
3

4 As outlined above, for the purposes of preparing this Application BPI has used the cost of capital  
5 parameters issued by the Board on November 9, 2020 for 2021 COS rate applications which reflects a  
6 return on equity of 8.34%. BPI will update the return on equity to reflect future Board issued cost of  
7 capital parameters for rates with effective dates in 2022 prior to the issuance of the Board's decision for  
8 its Application.

9 **Cost of Debt- Long-Term**

10 BPI is requesting a return on Long Term Debt for the 2022 Test Year of 3.28%. BPI is currently paying a  
11 rate 3.95% on its promissory note with the Corporation of the City of Brantford which was signed on  
12 December 18, 2020 with the renewal effective February 1, 2021.

13 A copy of the promissory note is attached as 'Attachment 5-A: Promissory Note with the City of  
14 Brantford' in this Exhibit.

15 Consistent with the OEB's policy with respect to affiliated debt, BPI has applied the deemed interest rate  
16 of 2.85% at the time of the signing of the note as the applicable interest rate.

17 In addition to this rate on affiliated debt, BPI is paying a rate of 3.11% on existing on its Long Term Loan  
18 negotiated with the Royal Bank of Canada and rates varying from 3.60% to 5.23% for existing term  
19 facilities negotiated with Ontario Infrastructure and Lands Corporation (OILC).

20 **Cost of Debt- Short-Term**

21 For the purposes of preparing this Application, BPI has used the cost of capital parameters issued by the  
22 Board on November 9, 2020 for 2021 COS rate applications which reflect a deemed short term debt rate  
23 of 1.75%. BPI will update the deemed short term debt rate to reflect future Board issued cost of capital  
24 parameters for rates with effective dates in 2022 prior to the issuance of the Board's decision for its  
25 Application.

26

1 **Capital Structure and Cost of Capital**

2 For 2022, the Weighted Average Cost of Capital of 5.24% will be applied to the Rate Base of \$98,178,340  
3 which has been calculated in detail in Exhibit 2, to determine a Return on Rate Base of \$5,148,360 that is  
4 included in the proposed Revenue Requirement.

5 **Forecasts of new debt anticipated in the bridge and test years - Financing Plans**

6 BPI is not forecasting any new debt in the 2021 bridge year and 2022 test year.

7 **Notional Debt**

8 BPI has calculated its notional debt based on the filing requirements as the difference between the  
9 deemed debt of 60% (56% long-term debt and 4% short-term debt) and BPI's actual debt. BPI's notional  
10 debt is \$11,065,535 as set out in the following table. The notional debt set out below represents positive  
11 notional debt (i.e. deemed debt is greater than actual debt). BPI proposes that the notional debt should  
12 attract the cost of actual long-term debt rather than the current deemed long term debt rate issued by  
13 the OEB.

14 **Table 5.2-A – Notional Debt**

Rate Base	Deemed Debt Rate	Deemed Debt	2022 Test Year Long Term Debt	Notional Debt
\$ 98,178,340	60%	\$ 58,907,004	\$ 47,841,469	\$ 11,065,535

16 **Profit or Loss on Redemption of Debt**

17 There is no profit or loss on redemption of debt.

18

1 **5.3 Not-For-Profit Organizations**

2 **5.3.1 Not-For-Profit Organizations**

3 Not Applicable. A reserve requirement is not applicable because BPI is a for profit corporation.

4



- 1 **List of Attachments**
- 2 **Attachment 5-A - Promissory Note with the City of Brantford**

# Attachment 5-A

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Promissory Note with the City of Brantford



PROMISSORY NOTE

DUE: February 1, 2026

FOR VALUE RECEIVED, Brantford Power Inc. (the "Corporation") hereby promises to pay to or to the order of "The Corporation of the City of Brantford (the "City") the Principal Sum of TWENTY-FOUR-MILLION, ONE HUNDRED AND EIGHTY-NINE THOUSAND, ONE HUNDRED AND SIXTY-EIGHT DOLLARS (\$24,189,168) (the "Principal Sum") with interest at the rate specified herein on February 1, 2026 (the "Maturity Date"). Interest on the Principal Sum shall accrue from the first day of February, 2021 and be payable at a rate per annum equal to the rate of THREE AND NINETY-FIVE ONE HUNDREDTHS PERCENT (3.95%). Interest at the aforesaid rate shall be payable annually to the City on the 30th day after the end of the Corporation's fiscal year.

At the option of the City and with six (6) months prior written notice by the City to the Corporation, this Promissory Note may be extended for successive periods (an "Extension Period") of five (5) years at a rate of interest equal to the prime rate of the Royal Bank of Canada (charged to its customers for commercial loans) plus one and one half percent (1.5%) or such other rate of interest as the City and the Corporation may agree upon (the "Extension Period Rate"). Interest at the Extension Period Rate shall be payable annually to the City on the 30th day after the end of the Corporation's fiscal year.

The obligation of the Corporation to pay the Principal Sum and all interest on this Promissory Note is subordinated and postponed to the obligations of the Corporation from time to time to any other financial institution or lender.

This Promissory Note may, at the option of the City, be converted, as to some or all of the Principal Sum outstanding, into common shares of the Corporation at a conversion ratio of \$100 per share. The foregoing conversion right may be exercised by the City at any time on ninety (90) days prior written notice to the corporation.

The terms of the Promissory Note are subject to the adjustment provisions of the Transfer By-law passed by the City on October 23, 2000 as By-law Number 156-2000.

This Promissory Note is not assignable by the City without the consent of the Corporation.

DATED this 18th Day of December, 2020.

BRANTFORD POWER INC.

Per:   
Name: Scott Saint

Title: Chair of the Board

Per:   
Name: Brian D'Amboise

Title: Corporate Secretary