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## Cost of Capital and Rate of Return

### Ex.5/Tab 1/Sch.1 – Overview

Rideau St. Lawrence Distribution Inc. (“RSL”) seeks to recover a weighted average cost of capital of 5.57% through rates in the 2022 Test Year. RSL has followed the Report of the Board on Cost of Capital for Ontario’s Regulated Utilities, December 11, 2009 in determining the cost of capital.

In calculating the cost of capital, RSL has used the OEB’s deemed capital structure of 56% for long-term debt, 4% for short-term debt, and 40% for equity, and the Cost of Capital parameters in the OEB’s letter of October 28, 2021, for the allowed return on equity (“ROE”). RSL recognizes that the Cost of Capital parameters will be updated in accordance with Board guidelines and as such commits to updating the cost capital parameters as new information is made available.

RSL’s Cost of Capital for 2022 has been calculated as 5.57%, as shown in the table below:

**Table 5.1: Cost of Capital**

<b>Particulars</b>	<b>Cost Rate</b>
	(%)
<b>Debt</b>	
Long-term Debt	3.69%
Short-term Debt	1.17%
<b>Total Debt</b>	<b>3.52%</b>
<b>Equity</b>	
Common Equity	8.66%
Preferred Shares	0.00%
<b>Total Equity</b>	<b>8.66%</b>
<b>Total</b>	<b>5.57%</b>

The Cost of Capital parameters are consistent with the letter issued by the OEB on October 28, 2021, which sets the values as indicated below: For rate-making purposes, the Utility used a weighted debt rate of 3.69% as the long-term debt rate

**Table 5.2: 2022 Rate Applications – Capital Parameters**

<b>Cost Capital Parameter</b>	<b>Value for 2022 Application for rate changes in 2022</b>					
Return on Equity (ROE)			8.66%			
Deemed Long Term Debt rate			3.49%			
Deemed Short Term Debt rate			1.17%			

**Ex.5/Tab 1/Sch.2 – Appendix 2-OA & 2-OB**

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

**Table 5.3: Appendix 2-OA – Cost of Capital & Debt Structure**

**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%	\$4,411,250	3.69%	\$162,572
2	Short-term Debt	4.00% (1)	\$315,089	1.17%	\$3,687
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$4,726,339</b>	<b>3.52%</b>	<b>\$166,258</b>
<b>Equity</b>					
4	Common Equity	40.00%	\$3,150,893	8.66%	\$272,867
5	Preferred Shares		\$ -		\$ -
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$3,150,893</b>	<b>8.66%</b>	<b>\$272,867</b>
7	<b>Total</b>	<b>100.0%</b>	<b>\$7,877,232</b>	<b>5.57%</b>	<b>\$439,125</b>

**Notes**

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

Last OEB-approved year: 2016 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
<b>Debt</b>					
1	Long-term Debt	56.00%	\$3,858,975	3.00%	\$115,769
2	Short-term Debt	4.00% (1)	\$275,641	1.76%	\$4,851
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$4,134,616</b>	<b>2.92%</b>	<b>\$120,621</b>
<b>Equity</b>					
4	Common Equity	40.00%	\$2,756,411	8.78%	\$242,013
5	Preferred Shares		\$ -		\$ -
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$2,756,411</b>	<b>8.78%</b>	<b>\$242,013</b>
7	<b>Total</b>	<b>100.0%</b>	<b>\$6,891,027</b>	<b>5.26%</b>	<b>\$362,633</b>

**Notes**

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

Appendix 2-OB below presents debt instruments for the Test Year and required historical years.

### Table 5.4: Appendix 2-OB – 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 2022

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.00	
2	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
3	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 203,631	3.95%	\$ 8,043.42	
4	Line of Credit	Bank of Montreal	Third-Party	Variable Rate	1-Jan-22	Demand	\$ 400,000	3.45%	\$ 13,800.00	
5								\$ -		
6								\$ -		
Total							\$ 1,786,983	3.69%	\$ 65,120.12	

Notes

- 1 If financing is in place only part of the year, separately calculate the pro-rated interest in the year and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009, or with any subsequent update issued by the OEB.
- 3 Add more lines above row 12 if necessary.

#### 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>1</sup>	Interest (\$)	Additional Comments, if any
1	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 6,988	2.78%	\$ 15.21	
2	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.00	
3	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
4	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 241,225	3.85%	\$ 5,539.05	
5	Line of Credit	Bank of Montreal	Third-Party	Variable Rate	1-Jan-21	Demand	\$ 353,892	3.45%	\$ 12,202.37	
6								\$ -		
Total							\$ 1,764,935	3.46%	\$ 61,033.33	

#### Appendix 2-OB Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2020

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 68,893	2.78%	\$ 855.16	
2	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.00	
3	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
4	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 316,412	3.95%	\$ 7,270.74	
5	Line of Credit	Bank of Montreal	Third-Party	Variable Rate	1-Jan-20	Demand	\$ 28,268	4.23%	\$ 498.56	average borrowings
6	Line of Credit	Bank of Montreal	Third-Party	Variable Rate	1-Jun-20	Demand	\$ 470,128	3.45%	\$ 16,218.42	average borrowings
7								\$ -		
Total							\$ 2,047,053	3.33%	\$ 68,120.57	

#### Appendix 2-OB Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2019

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Post Plus	Bank of Montreal	Third-Party	Fixed Rate	1-Sep-11	8	\$ 26,480	3.80%	\$ 434.44	
2	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 175,567	3.95%	\$ 4,977.22	
3	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.00	
4	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
5	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 316,412	3.95%	\$ 7,191.10	
6								\$ -		
Total							\$ 1,681,821	3.60%	\$ 60,479.45	

#### Appendix 2-OB Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2018

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Post Plus	Bank of Montreal	Third-Party	Fixed Rate	1-Sep-11	8	\$ 61,809	3.80%	\$ 1,725.48	
2	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 282,242	3.60%	\$ 8,328.64	
3	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.00	
4	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
5	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 354,005	3.60%	\$ 12,110.17	
6								\$ -		
Total							\$ 1,861,406	3.52%	\$ 65,438.98	

#### Appendix 2-OB Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2017

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Albac Line Truck	Bank of Montreal	Third-Party	Variable Rate	1-Dec-09	10	\$ 30,625	2.89%	\$ 453.51	
2	Post Plus	Bank of Montreal	Third-Party	Fixed Rate	1-Sep-11	8	\$ 97,129	3.80%	\$ 3,057.63	
3	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 388,916	2.89%	\$ 9,770.91	
4	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	3.72%	\$ 8,370.01	
5	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	3.72%	\$ 34,908.69	
6	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	6-May-16	10	\$ 114,000	2.89%	\$ 3,255.60	
7	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$ 281,935	0.0305	\$ 4,244.62	
8								\$ -		
Total							\$ 2,055,957	3.12%	\$ 64,069.17	

#### Appendix 2-OB Debt Instruments

This table must be completed for all required historical years, the bridge year and the test year.

Year 2016

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>1</sup>	Interest (\$)	Additional Comments, if any
1	Albac Line Truck	Bank of Montreal	Third-Party	Variable Rate	1-Dec-09	10	\$ 61,250	2.70%	\$ 1,270.46	
2	Post Plus	Bank of Montreal	Third-Party	Fixed Rate	1-Sep-11	8	\$ 152,449	3.80%	\$ 4,410.97	
3	Smart Meters	Bank of Montreal	Third-Party	Variable Rate	1-Jul-10	10	\$ 495,591	2.70%	\$ 12,045.77	
4	Promissory Note	Township of Edwardsburgh/Cardinal	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 225,000	4.41%	\$ 9,922.50	
5	Promissory Note	Township of South Dundas	Affiliated	Fixed Rate	1-Aug-01	Demand	\$ 938,352	4.41%	\$ 41,361.36	
6	Post Digger Truck	Bank of Montreal	Third-Party	Variable Rate	6-May-16	10	\$ 114,000	2.70%	\$ 1,967.80	
7								\$ -		
Total							\$ 1,966,642	3.61%	\$ 70,968.82	

### **Ex.5/Tab 1/Sch.3 – Rates of Capital Cost**

The proposed rates for cost of capital in 2022 are presented in Table 5.3 of Ex.5/Tab.1/Sch.2. The rates shown for short-term debt and return on equity are those set out in the Board's letter of October 28, 2021, "2022 Cost of Capital Parameters".

RSL proposes a Long-Term Debt cost rate of 3.69% for 2022 as calculated in Appendix 2-OB as displayed in Table 5.4 above.

RSL's current OEB-approved capital structure for rate-making purposes is 60% debt and 40% equity. RSL intends to maintain the same capital structure in the 2022 Test Year. This capital structure was confirmed by the OEB in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 (The "Board Report"). The 60% debt component is comprised of 4.0% deemed short-term debt and 56.0% deemed long-term debt.



## **Return on Equity**

RSL has used a Return on Equity (ROE) of 8.66% in 2022 as established by the Board for cost of service applications with a January 1, 2022 implementation date. RSL recognizes that the ROE may be updated in accordance with Board guidelines and as such commits to updating the cost capital parameters as new information is made available.

## **Long-Term Debt**

RSL proposes a Long Term Debt cost rate of 3.69% for 2022 which is slightly higher than the OEB's Deemed Long-Term Debt rate of 3.49 as prescribed in the Board's letter of October 28, 2021, "2022 Cost of Capital Parameters".

RSL's Long Term Debt instruments are summarized below.

- Promissory Note – RSL has two promissory notes with its shareholders, \$225,000 with the Township of Edwardsburgh/Cardinal, \$938,352 with the Township of South Dundas. The note for South Dundas was issued on August 1, 2001 with term on demand. The note for Edwardsburgh/Cardinal was issued on August 1, 2001 with term on demand. The notes have an interest rate that is determined by the Directors of RSL. The current interest rate is set at 3.72%, based on Cost of Capital Parameters as of July 1, 2017.
- Bank debt – RSL has secured a loan with the Bank of Montreal since 2017 for the purchase of a Posi Digger Truck. The term is 10 years with an interest rate of 3.95%. The outstanding principal for 2022 is \$203,631.
- Revolving Line of Credit – RSL has access to a revolving line of credit facility with average borrowing of \$400,000 that is secured by a general security agreement over the Corporation's assets. The amount used in the line of credit varies throughout each month. The current maximum credit available to RSL is \$1,500,000. RSL carefully watches cash flows to minimize the use of the line of credit. This credit facility is used instead of borrowing for specific assets or projects.

## **Short-Term Debt**

RSL has used a short-term debt rate of 1.17% for the 2022 Test Year as established by the Board for cost of service applications with a January 1, 2022 implementation date. RSL recognizes that the short-term debt rate may be updated at a later date consistent with the OEB's guidelines.

RSL's short-term debt instruments are summarized below.

- Letter of Credit: – RSL has obtained a Letter of Credit from the Bank of Montreal in the amount of \$681,809 that has been issued in favour of the IESO. This Letter of Credit financially secures the Corporation's electricity purchases from the IESO, who has not drawn on this credit instrument.

RSL is aware that the IESO is reviewing its prudential requirements and undertakes to update this evidence at a later date for any changes in these requirements authorized by the IESO.

RSL does not forecast that it will redeem any debt and has not issued any preference shares, hence RSL does not record either a profit or a loss on redemption of debt and/or preference shares.

## **Notional Debt**

Notional debt is the portion of deemed debt that results from differences between the RSL's actual long term debt and the deemed debt of 60% of the rate base. With the planned loan in 2022, RSL's actual long-term debt will be within 60% of the deemed debt. Consistent with the Filing Requirement, RSL has applied the actual long term debt rate to the whole portion of deemed long term debt.

## **Not-For-Profit**

Note that RSL is not a non-for-profit cooperation and as such, all requirements related to a not-for-profit organization do not apply.

## Appendix

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List of Appendices:

Appendix 5.1 - Promissory Notes

## Appendix 5.1 – Promissory Notes

### PROMISSORY NOTE

\$938,352.00

Date: October 31, 2000

For value received, the undersigned promises to pay on demand to the order of The Corporation of the Township of South Dundas, at its head office, the sum of Nine Hundred and Thirty-eight Thousand, Three Hundred and Fifty-two (\$938,352.00) Dollars.

This sum shall not bear interest from the date of the note to the earlier of the date of market opening or such time as the Directors shall decide.

Thereafter, interest is to be calculated with interest at a rate per annum as determined by the Directors from time to time, such amount not to exceed 7.25% per annum, or as negotiated annually. Interest shall be payable in the discretion of the Directors of the undersigned, taking into consideration the ability to pay of the undersigned (determined by the market value based rate of return phase in strategy, level of working capital or other reserves and the tax efficiency to shareholders of interest payments as opposed to dividend payments).

RIDEAU ST. LAWRENCE DISTRIBUTION INC.

Per: \_\_\_\_\_

I have authority to bind the Corporation.

PROMISSORY NOTE

\$225,000.00

Date: July 15, 2001

For value received, the undersigned promises to pay on demand to the order of The Corporation of the Village of Cardinal, at its head office, the sum of Two Hundred and Twenty-five Thousand (\$225,000.00) Dollars.

This sum shall not bear interest from the date of the note to the earlier of the date of market opening or such time as the Directors shall decide.

Thereafter, interest is to be calculated with interest at a rate per annum as determined by the Directors from time to time, such amount not to exceed 7.25% per annum, or as negotiated annually. Interest shall be payable in the discretion of the Directors of the undersigned, taking into consideration the ability to pay of the undersigned (determined by the market value based rate of return phase in strategy, level of working capital or other reserves and the tax efficiency to shareholders of interest payments as opposed to dividend payments).

RIDEAU ST. LAWRENCE DISTRIBUTION INC.

Per:  \_\_\_\_\_

I have authority to bind the Corporation