

Exhibit 5:

COST OF CAPITAL AND CAPITAL STRUCTURE



Exhibit 5: Cost Of Capital And Capital Structure

Tab 1 (of 2): Cost of Capital and Capital Structure

1

CAPITAL STRUCTURE

2

3 The following evidence describes Kingston Hydro's capitalization, both in terms
4 of debt and equity.

5

6 Kingston Hydro wishes to adopt the Board's guidelines for the cost of capital, as
7 outlined in the *Report of the Board on the Cost of Capital for Ontario's Regulated*
8 *Utilities* (the "Cost of Capital Report"), issued December 11, 2009, with the
9 exception of anticipated debt issuances in 2022 and 2023. Given the extreme
10 volatility in the debt markets since the latest release of the Cost of Capital
11 Parameter Update released on October 28, 2021 Kingston Hydro has included
12 the latest information available (as of March 28, 2022) with respect to long term
13 debt issuances. The Applicant has done this to attempt to provide the most
14 realistic version of the Cost of Capital for 2023.

15

16 As documented in the Report of the Board on Rate Setting Parameters and
17 Benchmarking under the Renewed Regulatory Framework for Ontario's
18 Electricity Distributors (EB-2010-0379) issued November 21, 2013, the Board
19 now updates Cost of Capital parameters for setting rates only once per year.

20

21 The Applicant proposes to review and update its Cost of Capital parameters
22 when the Board updates them for rates effective in the 2023 calendar year.

23

24 Kingston Hydro has a deemed capital structure of 60% debt and 40% equity. The
25 current Board approved (EB2015-0083) deemed short term debt rate is 1.65%
26 and the current deemed long term debt rate is 3.95%. The deemed return on



1 equity is 9.19%. This deemed return was used for the January 1, 2022 IRM rate
2 filing and equates to a total cost of capital of 5.95%.

3

4 As required, included in Appendix 2-OA Capital Structure is Kingston Hydro's
5 Board Approved 2020 capital structure as well as the 2023 Test year.

6

7 Since the Board Approved 2016 year through to the 2023 Test Year, Kingston
8 Hydro has not had any material changes in actual capital structure including
9 retirements of debt or preference shares and buy-back of common shares, short-
10 term debt, long-term debt, preference shares and common share offerings.

1

COST OF CAPITAL

2

DEBT INSTRUMENTS

4

5 Kingston Hydro's debt instruments are as outlined in Appendix 2-OB Debt
6 Instruments. Included are the years 2016-2023.

7

Long Term Affiliate Debt

9

10 The Applicant has Long Term Affiliate Debt outstanding at the last 2 proceedings
11 (2011 and 2016) in the amount of \$10,880,619. This debt remains outstanding
12 and is unchanged.

13

14 The interest rate attached to this debt remains at 5.87%, the deemed interest
15 rate at the 2011 cost of service proceeding which is also evidenced by the
16 attached promissory note.

17

18 This amount is included Appendix 2-OB Debt Instruments. The interest rate
19 included is estimated to be the deemed interest rate in effect in 2023. It is based
20 on the lending rate provided from our lender in March 2022, plus 0.5%. Kingston
21 Hydro proposes to update this rate once more information becomes available.

22

23 The details of the debt arrangement can be found in Exhibit 5 Tab 1 Schedule 2
24 Attachment 1.

1 **3rd Party Long Term Financing**

2
3 Kingston Hydro's 3rd Party long-term debt instruments are as outlined in
4 Appendix 2-OB Debt Instruments. Interest rates attached to the existing debt
5 instruments were market rates at the time of issuance. In its expected financing,
6 Kingston hydro has utilized debt rates that are more indicative of the actual rates
7 that will be in effect at the time of issuance.

8
9 The Company projects the following additional financing in 2022 and 2023, all
10 based on 30-year amortization periods unless otherwise noted:

- 11
- 12 • In 2022, it is expected that a \$2 million loan will be executed in December.
13 The interest rate that has been projected is based on information available
14 from our lender as of March 28, 2022. Kingston Hydro proposes to update
15 this rate once more information becomes available.
 - 16 • In 2023, it is expected that a \$1 million loan will be executed in December.
17 The interest rate that has been projected is based on information available
18 from our lender as of March 28, 2022 plus 0.5%, which is based on
19 expected Bank of Canada interest rate increases. Kingston Hydro
20 proposes to update this rate once more information becomes available.

21
22 **COMMON EQUITY**

23
24 Kingston Hydro is wholly owned by the Corporation of the City of Kingston, a
25 municipality in the Province of Ontario. This ownership consists of 120 common
26 shares of Kingston Hydro.

27
28 Kingston Hydro has used the deemed return on equity of 8.66% based on the
29 latest Cost of Capital Update issued by the OEB on October 28, 2021.



- 1 Kingston Hydro recognizes that this rate will be updated prior to the Decision
- 2 reflect the current rate in effect per the December 11, 2009 *Report of the Board*
- 3 *on the Cost of Capital for Ontario's Regulated Utilities.*



Attachment 1 (of 1):

Amended Promissory Note

AMENDED PROMISSORY NOTE

FOR VALUE RECEIVED, *Kingston Hydro Corporation* promises to pay to or to the order of *The Corporation of the City of Kingston* in part or in whole, on no less than 366 days prior written notice, at Kingston, Ontario the sum of \$10,880,619 (ten million, eight hundred and eighty thousand, six hundred and nineteen Dollars), and to pay interest from the date of this Promissory Note on the said sum or the amount from time to time remaining unpaid at the rate per annum which is equal to 5.87% (amended with effect as of May 1, 2011), and to pay on demand interest on overdue interest at the aforesaid rate. Such interest shall be payable monthly in arrears.. Interest at the aforesaid rate shall apply both before and after demand, default and judgment.

The principal and interest of this Promissory Note shall be paid in Canadian dollars without set-off or counterclaim.

Kingston Hydro Corporation waives presentment, protest and notice of any kind in the enforcement of this promissory note.

This promissory note shall be governed by the laws of the Province of Ontario including the federal laws of Canada applicable therein.

This promissory note amends, as to interest rate and notice of repayment, supercedes and replaces the demand promissory note earlier executed by Kingston Hydro Corporation in favour of The Corporation of the City of Kingston reflecting the terms of a resolution passed by the The Corporation of the City of Kingston under Section 159.1 of the Electricity Act, 1998, a copy of which is attached hereto as Exhibit "A", which earlier promissory note has been lost, misplaced or destroyed and is cancelled by the execution and delivery of this Promissory Note. .

Made at Kingston, Ontario this 28th day of November, 2012.

Kingston Hydro Corporation

Per:



James Keech
President and CEO

Per:



Randy Murphy
Treasurer


WITNESS

* * * * *

I HEREBY CERTIFY THAT THE FOLLOWING IS A TRUE AND CORRECT COPY OF Clause 1.(i), Committee of the Whole, ADOPTED AND APPROVED BY KINGSTON CITY COUNCIL AT ITS REGULAR MEETING HELD ON FEBRUARY 11, 2003:

1. (i) *WHEREAS the Province has enacted legislation in 1998, the Electricity Act, that has removed electricity from the definition of "public utility", and;*
WHEREAS the City of Kingston formed Kingston Electricity Distribution Limited, a business under the Business Corporations Act, as required by Section 142(1) of the Electricity Act, and;
WHEREAS the City of Kingston is satisfied that all necessary steps were taken to determine the revenue requirements of its electricity distribution utility, and;
WHEREAS Section 159.1 of Bill 210, the Electricity Pricing, Conservation & Supply Act, 2002, enacted on December 9, 2002, provides that a municipality that has an interest in an LDC, as defined in subsection 159.1(3), may, within 90 days after Section 159.1 comes into force, pass a resolution providing that the municipality affirms that the LDC should continue to be incorporated as provided in Subsection 142(1) of the Electricity Act, and;
WHEREAS Section 159.1 of Bill 210 provides that if the Minister of Energy does not receive a certificate certifying the passing of the resolution to continue to be incorporated, as provided in Subsection 142(1) of the Electricity Act within 90 days of Section 159.1 coming into force, the consequences as laid out in Subsections 159.1(5), (6) and (7) of Bill 210 will follow;
THEREFORE BE IT RESOLVED THAT the City of Kingston affirm that Kingston Electricity Distribution Limited shall continue to be incorporated as provided in Section 142(1) of the Electricity Act, as it was established in 2000;

-and further-

THAT Council authorize the Mayor and City Clerk to execute the Certificate of Passing of a resolution as prescribed by Regulation 430/02, certifying the passing of the resolution to continue to operate on a for-profit basis.

CARRIED



CAROLYN DOWNS
City Clerk

DATED at Kingston, Ontario
this 12th day of February, 2003

* * * * *

December 20, 2002

CERTIFICATE OF PASSING OF RESOLUTION
UNDER SECTION 159.1 OF THE *ELECTRICITY ACT*, 1998

Name of Municipality

Corporation of the City of Kingston

Name of Local Distribution Company

Kingston Electricity Distribution Limited

Direct and Indirect Beneficial Ownership of and Voting Rights in Local Distribution Company. Specify shareholders and % of ownership at each level of the corporate structure (see subsection 159.1 (3) of Act). If there is insufficient space on this form, attach additional page(s).

Corporation of the City of Kingston - Common Shares - 100%

Attached is a copy of the resolution passed by the municipality affirming that the local distribution company should continue to operate on a for-profit basis.

The municipality affirms that the projected return on common equity to be earned by the local distribution company, on which the rates approved by the Ontario Energy Board are based, is 8.43 %.

Provide details of all financial arrangements involving the municipality and the local distribution company. If there is insufficient space on this form, attach additional page(s).

Date of Arrangement	Description of Arrangement	Term	Principal Amount	Annual Interest Payable
Jan. 1, 2000	Note Payable	No Fixed Terms of Repayment	\$12,380,619	\$897,596

Isabel Turner ISABEL TURNER
Name of Mayor

Isabel Turner Feb 12, 2003
Signature of Mayor Date

CAROLYN S. DOWNS
Name of Clerk

Carolyn Downs Feb 12, 2003
Signature of Clerk Date



Kingston Hydro Corporation
Filed: June 17, 2022
EB-2022-0044
Exhibit 5
Tab 2

Exhibit 5: Cost Of Capital And Capital Structure

Tab 2 (of 2): Not-for-Profit Corporation



1

NOT-FOR-PROFIT CORPORATION

2

3 Kingston Hydro is not a not-for-profit corporation.