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EXHIBIT 5 - COST OF CAPITAL AND CAPITAL STRUCTURE INTERROGATORIES

OEB STAFF

5-STAFF-56

Common Equity

Ref 1: Exhibit 5, 5.2.5 Common Equity, page 9

Preamble:

Synergy North states,

“SNC is authorized to issue unlimited Common Shares, Class S Shares, Class A Special Shares and Class B Special Shares. As of December 31, 2022, 109,506 common shares and 1,000 Class A common shares were issued and fully paid. The 1,000 shares represent the equity investment of the renewable generation (solar PV) business activity.”

Question(s):

a) Please clarify what Synergy North means by “fully paid”?

b) Please confirm whether the 1000 Class A common shares above are equity in affiliate?

SNC Response

a) "Fully paid” refers to the fact that SNC has received full payment from the shareholders for the shares they received.
b) The 1000 shares are special shares of SNC held by Thunder Bay Hydro Corporation for ownership of the non-regulated renewable generation (Solar PV) assets within SNC. These assets have been excluded from this Application.

SCHOOL ENERGY COALITION

5-SEC-26

[Ex.5, Attach 5-C; Ex.6, p.10]

Please provide the specific portion of the increase in the 2024 revenue requirements from the 2017 Board approved proxy that is as a result of the end of the "Rate Minimization Model".

Please provide details of the calculation.

SNC response

The following recalculates the evidence as filed utilizing the rate minimization approach. The revised return on debt would have been $1,478,664 lower.

TABLE 5-1: RATE MINIMIZATION MODEL

Pre adjustment

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: 2024 without Rate Minimization

Line No.	Particulars	Capitalization Ratio			Cost Rate	Return
		(%)		($)	(%)	($)
	Debt					
1	Long-term Debt	56.00%		$89,359,533	4.28%	$3,826,628
2	Short-term Debt	4.00%	(1)	$6,382,824	4.79%	$305,737
3	**Total Debt**	60.0%		$95,742,356	4.32%	$4,132,366
	Equity					
4	Common Equity	40.00%		$63,828,238	9.36%	$5,974,323
5	Preferred Shares			$ -		$ -
6	**Total Equity**	40.0%		$63,828,238	9.36%	$5,974,323
7	**Total**	100.0%		$159,570,594	6.33%	$10,106,689

Post

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: 2024 with Rate Minimization

Line No.	Particulars	Capitalization Ratio			Cost Rate		Return
		(%)		($)	(%)		($)
	Debt						
1	Long-term Debt	56.00%		$89,359,533	2.63%		$2,347,965
2	Short-term Debt	4.00%	(1)	$6,382,824	4.79%		$305,737
3	**Total Debt**	60.0%		$95,742,356	4.32%		$2,653,702
	Equity						
4	Common Equity	40.00%		$63,828,238	9.36%		$5,974,323
5	Preferred Shares			$ -			$ -
6	**Total Equity**	40.0%		$63,828,238	9.36%		$5,974,323
7	**Total**	100.0%		$159,570,594	6.33%		$8,628,025
						Revenue requirement	$1,478,664

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

5.0-VECC-53

Reference: Exhibit 5, Appendix 2-OB

a) It does not appear that the calculation of the long-term debt rate as complete from Appendix 2-OB pro-rates debt issuances that are either retired or issued within the 2024 calendar year. Specifically rows 2, 8, and 15. Please recalculate the long-term debt rate making the appropriate pro-ration adjustments.

SNC Response

a) SNC confirms that both the TD debt that will be paid off in 2024 and the unknown debt drawn in 2024 have been pro-rated for the year, utilizing the actual interest rate and actual interest paid in the year to calculate the average principal outstanding. For further clarification, the amount expected to be drawn in 2024 will be $7,956,000 as per Section 5.2.2, page 7 of the application, resulting in an average outstanding balance in the year of $3.3M when considering the timing of the draw and debt payments, as such the $3.3M represents the prorated balance on an annualized basis. SNC treated the TD loan in the same manner.

   Regarding row 8, the City of Kenora debt, the promissory note was written on January 26, 2018, as seen in Exhibit 5, Attachment 5-B, page 18; however, the debt didn't become repayable until 2022 as per City of Kenora Resolution #8 dated April 19, 2022, and as such will not be repaid until 2027. SNC, however, didn't properly calculate the average balance outstanding in the 2-OB and has adjusted the forms accordingly. This resulted in a $1,989 decrease in revenue requirement. Please see the revised Appendix 2-OB in the attached Excel file SNC_2024_Chapter2_Appendices_20231110.

5.0-VECC-54

Reference: Exhibit 5

a) Please provide SNC's calculation of the average 2024 notional debt and the cost rate applied the notional debt. Please explain how the cost rate of notional debt is derived.

b) If the notional debt rate is not the lowest cost rate of all current debt (i.e., 2.65%), then please explain why this would not be the most appropriate rate given it was SNC's shareholders who chose not to raise debt during low debt cost periods.

SNC response

a) SNC provided its Notional Debt calculation in section 5.2.8 Notional Debt on page 10 of Exhibit 5. The rate at the time of filing was 4.32%. The Notional Debt at the time of filing was $17,110,189 (Deemed debt $95,742,356 – weighted long-term debt $78,632,167).

b) SNC used its weighted cost of debt to determine the cost rate (please see Exhibit 5, Section 5.2.8, page 10). SNC doesn't agree that it should use the 2.65% rate, as it does not represent the cost of debt that SNC will incur in the test year and future years. For example, the weighted debt cost considers debt that could have been received at the lowest rate and debt that could have been issued at the higher 2009 rate of 5.27%. SNC is complying with the OEB's cost of capital policy and there is no evidence on the record to suggest this policy should not apply in this case. SNC would not simply borrow money in low interest rate periods if that money was not required for business purposes.