



**EXHIBIT 5  
COST OF CAPITAL AND  
CAPITAL STRUCTURE**

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1 **5 Cost of Capital and Capital Structure**

2 In this Exhibit, Welland Hydro-Electric System Corp. (“WHESC”) presents evidence regarding capital  
 3 structure, debt financing and the calculation of its return on equity for the 2025 Test Year.

4 **5.1 Capital Structure**

5 **5.1.1 Parameters Used**

6 WHESC has prepared this 2025 COS Application in accordance with the Board’s guidelines provided in the  
 7 Report of the OEB on Cost of Capital for Ontario’s Regulated Utilities (the “2009 Report”) issued on  
 8 December 11, 2009. For the purposes of preparing this Application, WHESC has used the Cost of Capital  
 9 Parameters issued by the Board on October 31, 2023 for 2024 Cost of Service applications.

10 WHESC seeks to recover a weighted average cost of capital of 5.66% through rates in the 2025 Test Year.  
 11 In calculating the applicable cost of capital, WHESC has used:

- 12 • The OEB’s deemed capital structure of 56% long-term debt, 4% short-term debt, and 40%  
 13 equity.
- 14 • The most recently published allowed return on equity (ROE) rate of 9.21%, and short-term debt  
 15 rate of 4.58% as per the OEB’s prescribed Cost of Capital Parameters published for 2024 Cost  
 16 of Service applications.
- 17 • A long-term debt rate of 3.09% based on existing third-party debt. Further explanation of this  
 18 calculation is provided in Section 5.2 of this Exhibit.

19  
 20 WHESC is not proposing to deviate from the previously approved deemed capital structure of 40% equity,  
 21 56% long-term debt, and 4% short-term debt.

22  
 23 WHESC acknowledges that these rates are subject to change at such time that the 2025 Cost of Capital  
 24 Parameters are issued by the OEB.

25 **Table 5-1: Overview of Capital Structure**

Description	% of Rate Base	Rate of Return
Long Term Debt	56.00%	3.09%
Unfunded Short Term Debt	4.00%	6.23%
<b>Total Debt</b>	<b>60.00%</b>	
<b>Equity</b>	<b>40.00%</b>	9.21%
<b>Total Rate Base</b>	<b>100.00%</b>	<b>5.66%</b>

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1 **5.1.2 Completed Appendix 2-OA**

2 Table 5-2 below is OEB Appendix 2-OA which summarizes WHESC’s proposed capital structure for the  
 3 2025 Test Year.

4 WHESC is requesting the following for the 2025 Test Year: a deemed interest expense of \$912,604 and a  
 5 deemed return on equity of \$1,697,328 for a total regulated rate of return on capital of \$2,609,932.

6 WHESC has not issued any preferred shares, retired any long-term debt, or initiated any buy-back of units  
 7 since it’s last Cost of Service (COS). In December 2019, WHESC converted a \$13,500,000 promissory  
 8 note that was held with its shareholder at an interest rate of 6.25% to TD Securities at an interest rate of  
 9 2.805%.

10 **Table 5-2: OEB Appendix 2-OA 2025 Test Year Proposed Cost of Capital**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$25,800,858	3.09%	\$797,790
2	Short-term Debt	4.00%	\$1,842,918	6.23%	\$114,814
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$27,643,777</b>	<b>3.30%</b>	<b>\$912,604</b>
	<b>Equity</b>				
4	Common Equity	40.00%	\$18,429,184	9.21%	\$1,697,328
5	Preferred Shares		\$ -		\$ -
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$18,429,184</b>	<b>9.21%</b>	<b>\$1,697,328</b>
7	<b>Total</b>	<b>100.0%</b>	<b>\$46,072,961</b>	<b>5.66%</b>	<b>\$2,609,932</b>

12 Table 5-3 below is OEB Appendix 2-OA which summarizes WHESC’s last Board approved capital structure  
 13 in EB-2016-0110 for the 2017 Test Year.

1 **Table 5-3: OEB Appendix 2-OA 2017 Board Approved Cost of Capital**

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return	
		(%)	(\$)	(%)	(\$)		
	<b>Debt</b>						
1	Long-term Debt	56.00%	\$18,852,494	3.72%		\$701,313	
2	Short-term Debt	4.00%	\$1,346,607	1.76%		\$23,700	
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$20,199,101</b>	<b>3.59%</b>		<b>\$725,013</b>	
	<b>Equity</b>						
4	Common Equity	40.00%	\$13,466,067	8.78%		\$1,182,321	
5	Preferred Shares		\$ -			\$ -	
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$13,466,067</b>	<b>8.78%</b>		<b>\$1,182,321</b>	
7	<b>Total</b>	<b>100.0%</b>	<b>\$33,665,168</b>	<b>5.67%</b>		<b>\$1,907,334</b>	

3 Variance analysis of cost of capital can be found in Section 5.1.4 Variance Analysis of Capital Structure.

4 **5.1.3 Completed Appendix 2-OB**

5 Table 5-4 to Table 5-12 below is a reproduction of Appendix 2-OB and lists WHESC's long-term debt  
 6 instruments from 2017 to the 2025 Test Year.

7 **Table 5-4: OEB Appendix 2-OB 2017 Actual Debt Instruments**

		Year <input type="text" value="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	Long Term Note Payable	City of Welland	Affiliated	Fixed Rate	16-Oct-05		\$ 13,499,953	0.0625	\$ 843,747.06	
8	<b>Total</b>						\$ 13,499,953	6.25%	\$ 843,747.06	

9 **Table 5-5: OEB Appendix 2-OB 2018 Actual Debt Instruments**

		Year <input type="text" value="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	Long Term Note Payable	City of Welland	Affiliated	Fixed Rate	16-Oct-05		\$ 13,499,953	0.0625	\$ 843,747.06	
10	<b>Total</b>						\$ 13,499,953	6.25%	\$ 843,747.06	

11 **Table 5-6: OEB Appendix 2-OB 2019 Actual Debt Instruments**

		Year <input type="text" value="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	Long Term Note Payable	City of Welland	Affiliated	Fixed Rate	16-Oct-05		\$ 13,499,953	0.0625	\$ 826,602.00	
	Long Term Note Payable	City of Welland	Affiliated	Fixed Rate			\$ 13,499,953	-0.0625		
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 12,449.59	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.03620	\$ 49,985.75	
12	<b>Total</b>						\$ 15,000,000	5.93%	\$ 889,037.34	

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**Table 5-7: OEB Appendix 2-OB 2020 Actual Debt Instruments**

		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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 40,579.00	
Total							\$ 18,500,000	2.56%	\$ 473,554.00	

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**Table 5-8: OEB Appendix 2-OB 2021 Actual Debt Instruments**

		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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 69,020.00	
Total							\$ 18,500,000	2.71%	\$ 501,995.00	

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**Table 5-9: OEB Appendix 2-OB 2022 Actual Debt Instruments**

		Year		2022						
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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 69,020.00	
4									\$ -	
Total							\$ 18,500,000	2.71%	\$ 501,995.00	

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**Table 5-10: OEB Appendix 2-OB 2023 Actual Debt Instruments**

		Year		2023						
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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 54,437.00	
4	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	14-Apr-23	15	\$ 2,500,000	0.04493	\$ 78,824.00	
Total							\$ 21,000,000	2.70%	\$ 566,236.00	

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**Table 5-11: OEB Appendix 2-OB 2024 Bridge Year Debt Instruments**

		Year		2024						
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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 69,020.00	
4	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	14-Apr-23	15	\$ 2,500,000	0.04493	\$ 112,325.00	
Total							\$ 21,000,000	2.93%	\$ 614,320.00	

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**Table 5-12: OEB Appendix 2-OB 2025 Test Year Debt Instruments**

Year 2025

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	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	20-Dec-19	10	\$ 13,500,000	0.02805	\$ 378,675.00	
2	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	30-Jan-19	10	\$ 1,500,000	0.0362	\$ 54,300.00	
3	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	26-May-20	15	\$ 3,500,000	0.01972	\$ 69,020.00	
4	Long Term Note Payable	TD Securities	Third-Party	Fixed Rate	14-Apr-23	15	\$ 2,500,000	0.04493	\$ 112,325.00	
5	Forecasted Long Term Note Payable	TBD	Third-Party	Fixed Rate	1-Jan-25	15	\$ 2,500,000	0.04493	\$ 112,325.00	
	<b>Total</b>						<b>\$ 23,500,000</b>	<b>3.09%</b>	<b>\$ 726,645.00</b>	

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3 **5.1.4 Variance Analysis of Capital Structure**

4 Table 5-13 below shows the variance between 2025 Test Year proposed capital structure compared to 2017  
 5 Board Approved capital structure. WHESC is requesting an increase in return on debt of \$187,591  
 6 (\$912,604 versus \$725,013) from the 2017 approved amount to the 2025 Test Year. The increase is due to  
 7 a change in the short-term debt rate and an increase in fixed assets.

8 WHESC is requesting an increase of \$515,007 (\$1,697,328 versus \$1,182,321) in total return on equity  
 9 from the 2017 approved amount to the 2025 Test Year. The variance is primarily related to the increase in  
 10 rate base caused by capital investment requirements from 2017 forward to the 2025 Test Year.

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**Table 5-13: 2025 Test Year vs. 2017 Board Approved Capital Structure Variance**

2025 Test Year Component	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Long-Term Debt	56.0%	\$ 25,800,858	3.09%	\$ 797,790
Short-Term Debt	4.0%	\$ 1,842,918	6.23%	\$ 114,814
<b>Total Debt</b>	<b>60.0%</b>	<b>\$ 27,643,777</b>	<b>3.30%</b>	<b>\$ 912,604</b>
Common Equity	40.0%	\$ 18,429,184	9.21%	\$1,697,328
Preferred Shares	0.0%	\$ -		\$ -
<b>Total Equity</b>	<b>40.0%</b>	<b>\$ 18,429,184</b>	<b>9.21%</b>	<b>\$1,697,328</b>
<b>2025 Test Year Total</b>	<b>100%</b>	<b>\$ 46,072,961</b>	<b>5.66%</b>	<b>\$2,609,932</b>

2017 Board Approved Component	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Long-Term Debt	56.0%	\$ 18,852,494	3.72%	\$ 701,313
Short-Term Debt	4.0%	\$ 1,346,607	1.76%	\$ 23,700
<b>Total Debt</b>	<b>60.0%</b>	<b>\$ 20,199,101</b>	<b>3.59%</b>	<b>\$ 725,013</b>
Common Equity	40.0%	\$ 13,466,067	8.78%	\$1,182,321
Preferred Shares	0.0%	\$ -		\$ -
<b>Total Equity</b>	<b>40.0%</b>	<b>\$ 13,466,067</b>	<b>8.78%</b>	<b>\$1,182,321</b>
<b>2025 Test Year Total</b>	<b>100%</b>	<b>\$ 33,665,168</b>	<b>5.67%</b>	<b>\$1,907,334</b>

2025 Test Year vs. 2017 Board Approved Variance	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Long-Term Debt	0.0%	\$ 6,948,364	-0.63%	\$ 96,477
Short-Term Debt	0.0%	\$ 496,311	4.47%	\$ 91,114
<b>Total Debt</b>	<b>0.0%</b>	<b>\$ 7,444,676</b>	<b>-0.29%</b>	<b>\$ 187,591</b>
Common Equity	0.0%	\$ 4,963,117	0.43%	\$ 515,007
Preferred Shares	0.0%	\$ -		\$ -
<b>Total Equity</b>	<b>0.0%</b>	<b>\$ 4,963,117</b>	<b>0.43%</b>	<b>\$ 515,007</b>
<b>2025 Test Year Total</b>	<b>0%</b>	<b>\$ 12,407,793</b>	<b>0.14%</b>	<b>\$ 702,598</b>

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

2 As per the filing requirements, WHESC is providing the 2017 Board Approved Capital Structure in Table  
 3 5-14 below. Deemed capital component costs for 2017 to 2023 actual, and 2024 Bridge Year and 2025 Test  
 4 Year can be found in Table 5-15, Table 5-16 and Table 5-17 below.

5 **Table 5-14: 2017 OEB Approved Capital Structure**

Description	Capitalization Ratio		Cost Rate	Return
	%	\$	%	\$
<b>Debt</b>				
Long-Term Debt	56%	\$18,852,494	3.72%	\$701,313
Short-Term Debt	4%	\$1,346,607	1.76%	\$23,700
<b>Total Debt</b>	<b>60%</b>	<b>\$20,199,101</b>	<b>3.59%</b>	<b>\$725,013</b>
<b>Equity</b>				
Common Equity	40%	\$13,466,067	8.78%	\$1,182,321
<b>Total Equity</b>	<b>40%</b>	<b>\$13,466,067</b>	<b>8.78%</b>	<b>\$1,182,321</b>
<b>Grand Total</b>	<b>100%</b>	<b>\$33,665,168</b>	<b>5.67%</b>	<b>\$1,907,334</b>

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7 **Table 5-15: 2017 to 2019 Capital Structure**

2017			2018			2019		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.72%
Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	1.76%
Return On Equity	40.00%	8.78%	Return On Equity	40.00%	8.78%	Return On Equity	40.00%	8.78%
<b>Weighted Debt Rate</b>		<b>3.59%</b>	<b>Weighted Debt Rate</b>		<b>3.59%</b>	<b>Weighted Debt Rate</b>		<b>3.59%</b>
<b>Regulated Rate of Return</b>		<b>5.67%</b>	<b>Regulated Rate of Return</b>		<b>5.67%</b>	<b>Regulated Rate of Return</b>		<b>5.67%</b>
<b>WORKING CAPITAL ALLOWANCE FOR 2017</b>			<b>WORKING CAPITAL ALLOWANCE FOR 2018</b>			<b>WORKING CAPITAL ALLOWANCE FOR 2019</b>		
<b>Distribution Expenses</b>			<b>Distribution Expenses</b>			<b>Distribution Expenses</b>		
Distribution Expenses - Operation		1,492,815	Distribution Expenses - Operation		1,311,161	Distribution Expenses - Operation		1,330,026
Distribution Expenses - Maintenance		1,885,768	Distribution Expenses - Maintenance		2,086,551	Distribution Expenses - Maintenance		2,270,810
Billing and Collecting		1,428,794	Billing and Collecting		1,399,519	Billing and Collecting		1,327,067
Community Relations		149,386	Community Relations		169,206	Community Relations		153,684
Administrative and General Expenses		1,797,550	Administrative and General Expenses		1,816,145	Administrative and General Expenses		1,840,781
Donations - LEAP		12,000	Donations - LEAP		13,500	Donations - LEAP		13,500
Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-
Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0
<b>Total Eligible Distribution Expenses</b>		<b>6,766,313</b>	<b>Total Eligible Distribution Expenses</b>		<b>6,796,083</b>	<b>Total Eligible Distribution Expenses</b>		<b>6,935,869</b>
Power Supply Expenses		42,574,040	Power Supply Expenses		42,568,699	Power Supply Expenses		44,518,077
<b>Total Working Capital Expenses</b>		<b>49,340,353</b>	<b>Total Working Capital Expenses</b>		<b>49,364,782</b>	<b>Total Working Capital Expenses</b>		<b>51,453,946</b>
Working Capital Allowance @	7.50%	3,700,526	Working Capital Allowance @	7.50%	3,702,359	Working Capital Allowance @	7.50%	3,859,046
<b>RATE BASE CALCULATION FOR 2017</b>			<b>RATE BASE CALCULATION FOR 2018</b>			<b>RATE BASE CALCULATION FOR 2019</b>		
Fixed Assets Opening Balance 2017		29,147,733	Fixed Assets Opening Balance 2018		29,964,758	Fixed Assets Opening Balance 2019		30,467,836
Fixed Assets Closing Balance 2017		29,964,758	Fixed Assets Closing Balance 2018		30,467,836	Fixed Assets Closing Balance 2019		32,289,939
<b>Average Fixed Asset Balance for 2017</b>		<b>29,556,245</b>	<b>Average Fixed Asset Balance for 2018</b>		<b>30,216,297</b>	<b>Average Fixed Asset Balance for 2019</b>		<b>31,378,887</b>
Working Capital Allowance		3,700,526	Working Capital Allowance		3,702,359	Working Capital Allowance		3,859,046
<b>Rate Base</b>		<b>33,256,772</b>	<b>Rate Base</b>		<b>33,918,655</b>	<b>Rate Base</b>		<b>35,237,933</b>
Regulated Rate of Return		5.67%	Regulated Rate of Return		5.67%	Regulated Rate of Return		5.67%
<b>Regulated Return on Capital</b>		<b>1,884,196</b>	<b>Regulated Return on Capital</b>		<b>1,921,695</b>	<b>Regulated Return on Capital</b>		<b>1,996,440</b>
Deemed Interest Expense		716,218	Deemed Interest Expense		730,472	Deemed Interest Expense		758,884
Deemed Return on Equity		1,167,978	Deemed Return on Equity		1,191,223	Deemed Return on Equity		1,237,556

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**Table 5-16: 2020 to 2022 Capital Structure**

2020			2021			2022		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.72%
Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	1.76%
Return On Equity	40.00%	8.78%	Return On Equity	40.00%	8.78%	Return On Equity	40.00%	8.78%
<b>Weighted Debt Rate</b>		3.59%	<b>Weighted Debt Rate</b>		3.59%	<b>Weighted Debt Rate</b>		3.59%
<b>Regulated Rate of Return</b>		5.67%	<b>Regulated Rate of Return</b>		5.67%	<b>Regulated Rate of Return</b>		5.67%

  

WORKING CAPITAL ALLOWANCE FOR 2020			WORKING CAPITAL ALLOWANCE FOR 2021			WORKING CAPITAL ALLOWANCE FOR 2022		
Distribution Expenses			Distribution Expenses			Distribution Expenses		
Distribution Expenses - Operation		1,529,537	Distribution Expenses - Operation		1,738,879	Distribution Expenses - Operation		1,659,436
Distribution Expenses - Maintenance		1,990,642	Distribution Expenses - Maintenance		1,922,813	Distribution Expenses - Maintenance		2,107,765
Billing and Collecting		1,500,139	Billing and Collecting		1,393,265	Billing and Collecting		1,491,435
Community Relations		63,668	Community Relations		41,182	Community Relations		53,290
Administrative and General Expenses		1,706,537	Administrative and General Expenses		1,662,859	Administrative and General Expenses		1,757,534
Donations - LEAP		29,311	Donations - LEAP		25,454	Donations - LEAP		14,035
Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-
Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0
<b>Total Eligible Distribution Expenses</b>		<b>6,819,834</b>	<b>Total Eligible Distribution Expenses</b>		<b>6,784,453</b>	<b>Total Eligible Distribution Expenses</b>		<b>7,083,496</b>
Power Supply Expenses		51,824,013	Power Supply Expenses		45,255,363	Power Supply Expenses		45,857,634
<b>Total Working Capital Expenses</b>		<b>58,643,847</b>	<b>Total Working Capital Expenses</b>		<b>52,039,816</b>	<b>Total Working Capital Expenses</b>		<b>52,941,130</b>
Working Capital Allowance @	7.50%	4,398,288	Working Capital Allowance @	7.50%	3,902,986	Working Capital Allowance @	7.50%	3,970,585

  

RATE BASE CALCULATION FOR 2020			RATE BASE CALCULATION FOR 2021			RATE BASE CALCULATION FOR 2022		
Fixed Assets Opening Balance 2020		32,289,939	Fixed Assets Opening Balance 2021		33,930,681	Fixed Assets Opening Balance 2022		35,395,988
Fixed Assets Closing Balance 2020		33,930,681	Fixed Assets Closing Balance 2021		35,395,988	Fixed Assets Closing Balance 2022		37,052,370
<b>Average Fixed Asset Balance for 2020</b>		<b>33,110,310</b>	<b>Average Fixed Asset Balance for 2021</b>		<b>34,663,334</b>	<b>Average Fixed Asset Balance for 2022</b>		<b>36,224,179</b>
Working Capital Allowance		4,398,288	Working Capital Allowance		3,902,986	Working Capital Allowance		3,970,585
<b>Rate Base</b>		<b>37,508,599</b>	<b>Rate Base</b>		<b>38,566,321</b>	<b>Rate Base</b>		<b>40,194,763</b>
Regulated Rate of Return		5.67%	Regulated Rate of Return		5.67%	Regulated Rate of Return		5.67%
<b>Regulated Return on Capital</b>		<b>2,125,087</b>	<b>Regulated Return on Capital</b>		<b>2,185,013</b>	<b>Regulated Return on Capital</b>		<b>2,277,275</b>
Deemed Interest Expense		807,785	Deemed Interest Expense		830,564	Deemed Interest Expense		865,634
Deemed Return on Equity		1,317,302	Deemed Return on Equity		1,354,449	Deemed Return on Equity		1,411,640

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**Table 5-17: 2023 to 2025 Test Year Capital Structure**

2023			2024			2025		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.72%	Long-Term Debt	56.00%	3.09%
Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	1.76%	Short-Term Debt	4.00%	6.23%
Return On Equity	40.00%	8.78%	Return On Equity	40.00%	8.78%	Return On Equity	40.00%	9.21%
<b>Weighted Debt Rate</b>		3.59%	<b>Weighted Debt Rate</b>		3.59%	<b>Weighted Debt Rate</b>		3.30%
<b>Regulated Rate of Return</b>		5.67%	<b>Regulated Rate of Return</b>		5.67%	<b>Regulated Rate of Return</b>		5.66%

  

WORKING CAPITAL ALLOWANCE FOR 2023			WORKING CAPITAL ALLOWANCE FOR 2024			WORKING CAPITAL ALLOWANCE FOR 2025		
Distribution Expenses			Distribution Expenses			Distribution Expenses		
Distribution Expenses - Operation		1,815,317	Distribution Expenses - Operation		1,649,749	Distribution Expenses - Operation		2,035,874
Distribution Expenses - Maintenance		2,010,190	Distribution Expenses - Maintenance		2,525,383	Distribution Expenses - Maintenance		2,669,176
Billing and Collecting		1,474,496	Billing and Collecting		1,640,375	Billing and Collecting		1,765,877
Community Relations		53,068	Community Relations		60,367	Community Relations		62,438
Administrative and General Expenses		1,872,043	Administrative and General Expenses		2,189,905	Administrative and General Expenses		2,264,544
Donations - LEAP		13,156	Donations - LEAP		25,000	Donations - LEAP		25,750
Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-	Taxes Other than Income Taxes		-
Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0	Less Allocated Depreciation in OM&A		0
<b>Total Eligible Distribution Expenses</b>		<b>7,238,271</b>	<b>Total Eligible Distribution Expenses</b>		<b>8,090,780</b>	<b>Total Eligible Distribution Expenses</b>		<b>8,823,658</b>
Power Supply Expenses		44,613,980	Power Supply Expenses		44,451,498	Power Supply Expenses		45,016,203
<b>Total Working Capital Expenses</b>		<b>51,852,250</b>	<b>Total Working Capital Expenses</b>		<b>52,542,277</b>	<b>Total Working Capital Expenses</b>		<b>53,839,862</b>
Working Capital Allowance @	7.50%	3,888,919	Working Capital Allowance @	7.50%	3,940,671	Working Capital Allowance @	7.50%	4,037,990

  

RATE BASE CALCULATION FOR 2023			RATE BASE CALCULATION FOR 2024			RATE BASE CALCULATION FOR 2025		
Fixed Assets Opening Balance 2023		37,052,370	Fixed Assets Opening Balance 2024		38,735,192	Fixed Assets Opening Balance 2025		40,572,969
Fixed Assets Closing Balance 2023		38,735,192	Fixed Assets Closing Balance 2024		40,526,100	Fixed Assets Closing Balance 2025		43,496,974
<b>Average Fixed Asset Balance for 2023</b>		<b>37,893,781</b>	<b>Average Fixed Asset Balance for 2024</b>		<b>39,630,646</b>	<b>Average Fixed Asset Balance for 2025</b>		<b>42,034,971</b>
Working Capital Allowance		3,888,919	Working Capital Allowance		3,940,671	Working Capital Allowance		4,037,990
<b>Rate Base</b>		<b>41,782,700</b>	<b>Rate Base</b>		<b>43,571,317</b>	<b>Rate Base</b>		<b>46,072,961</b>
Regulated Rate of Return		5.67%	Regulated Rate of Return		5.67%	Regulated Rate of Return		5.66%
<b>Regulated Return on Capital</b>		<b>2,367,241</b>	<b>Regulated Return on Capital</b>		<b>2,468,577</b>	<b>Regulated Return on Capital</b>		<b>2,609,932</b>
Deemed Interest Expense		899,832	Deemed Interest Expense		938,352	Deemed Interest Expense		912,604
Deemed Return on Equity		1,467,408	Deemed Return on Equity		1,530,225	Deemed Return on Equity		1,697,328

4

5 In Table 5-17 above, the Fixed Assets Opening Balance in the 2025 Test year is different than the Fixed  
 6 Assets Closing Balance in the 2024 Bridge Year by \$46,869 (\$40,572,969 versus 40,526,100). This  
 7 difference is related to the net book value of an investment in meters categorized as "Meter Inside  
 8 Settlement Timeframe" ("MIST") in 2018 that was previously recorded in Account 1557. For additional

1 information related to this adjustment see Exhibit 9 (Section 9.1) and Exhibit 2 (Section 2.1.1) of this  
2 application.

3 For the purpose of this application, WHESC has utilized its actual Long-Term Debt Rate of 3.09% which is  
4 lower than the Board's prescribed deemed rate of 4.58% issued on October 31, 2023. WHESC notes that  
5 this rate may be updated should the OEB issue updated cost of capital parameters prior to the issuance of  
6 a decision on this application. WHESC had one promissory note with its Shareholder in the amount of  
7 \$13,499,953 that was monetized and replaced with a \$13,500,000 third party note in December 2019.

### 8 **5.2.1 Cost of Short-Term Debt**

9 For the purpose of this application, WHESC has utilized and is requesting the Deemed Short-Term Debt  
10 Rate of 6.23% issued by the OEB on October 31, 2023.

11 WHESC acknowledges and understands that the Short-Term Debt rate is subject to change at such time  
12 that the 2025 Cost of Capital parameters are issued by the OEB.

### 13 **5.2.2 Return on Equity**

14 For the purpose of this application, WHESC has utilized and is requesting the Return on Equity rate of  
15 9.21% used by the OEB on October 31, 2023.

16 WHESC acknowledges and understands that the Return on Equity rate is subject to change at such time  
17 that the 2025 Cost of Capital parameters are issued by the OEB.

### 18 **5.2.3 Profit or Loss on Redemption of Debt and/or Preferred Shares**

19 WHESC repaid a \$13,499,953 promissory note to the City of Welland, its Shareholder, on December 20,  
20 2019. No profit or loss was incurred on the repayment of the promissory note. This promissory note was  
21 replaced by a \$13,500,000 term loan with a third-party lender.

### 22 **5.2.4 Current Notes or Debt with Affiliates**

23 All of WHESC's current Long-Term Debt is held with TD Securities, a third-party lender. As a result, WHESC  
24 will not be providing copies of current debt arrangements with the bank. The notional debt is assumed to  
25 attract the weighted average cost of actual long term debt in the 2025 Test Year.

### 26 **5.2.5 Anticipated New Debt**

27 Included in Board Appendix 2-OB is planned additional third-party debt in the amount of \$2,500,000. The  
28 noted interest rate on this new debt instrument is forecast to be 4.493%, with a term of 15 years, consistent

1 with the most recent secured debt obtained in April 2023. WHESC anticipates that Bank of Canada prime  
2 rate reductions will result in an equivalent rate at the time of debt acquisition for a similar instrument.

### 3 **5.2.6 Historical Return on Equity Achieved**

4 Table 5-18 provides an overview of WHESC's achieved return on equity from the 2017 to 2023 years.

5 **Table 5-18: Historical ROE Value Achieved**

Year	Deemed ROE	Achieved ROE
2017	8.78%	8.51%
2018	8.78%	11.41%
2019	8.78%	10.44%
2020	8.78%	9.36%
2021	8.78%	10.72%
2022	8.78%	11.71%
2023	8.78%	12.97%

6  
7 The achieved ROE for WHESC has been within the +/- 3% dead band of the deemed ROE for all historical  
8 years since the 2017 Cost of Service (COS), except for 2023. The cause of the increase in ROE in 2023 is  
9 primarily related to stronger than normal growth and unanticipated FTE losses. WHESC view the conditions  
10 experienced in 2023 to be anomalous, specifically in relation to growth.

### 11 **5.3 Not-for-Profit Corporations**

12 This filing requirement is not applicable as WHESC is a for profit corporation.