

EXHIBIT 5

COST OF CAPITAL AND CAPITAL STRUCTURE

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LIST OF ATTACHMENTS

Attachment 1_OEB_Chapter2Appendices_BHI_04162025

EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

BHI provides an overview of its Cost of Capital and Capital Structure in this Exhibit 5, including its capital structure, component costs, and the calculation of return on equity and debt for the 2026 Test Year. Exhibit 5 has been prepared in a manner consistent with the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084) issued December 11, 2009 ("Cost of Capital Report") and *OEB Staff Report Review of the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), issued January 14, 2016. BHI has used the 2025 Cost of Capital Parameters issued by the OEB on March 27, 2025¹, subject to an update if new parameters are available prior to the OEB rendering its Decision on this Application.

¹ <https://www.oeb.ca/industry/rules-codes-and-requirements/cost-capital-parameter-updates>

5.1 CAPITAL STRUCTURE

BHI determines its capital structure for rate making purposes in accordance with the Cost of Capital Report. Appendix 2-OA and Appendix 2-OB are filed in the live Excel file Attachment 1_OEB_Chapter2Appendices_BHI_04162025.

BHI's proposed deemed capital structure for the 2026 Test Year is 60% debt (56% long-term debt and 4% short-term debt) and 40% equity, as identified in Table 1 below.

Table 1 – 2026 Deemed Capital Structure

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$103,376,214	4.36%	\$4,511,619
Short-term Debt	4.00%	\$7,384,015	3.91%	\$288,715
Total Debt	60.00%	\$110,760,229	4.33%	\$4,800,334
Equity				
Common Equity	40.00%	\$73,840,153	9.00%	\$6,645,614
Preferred Shares	—%	\$0	—%	\$0
Total Equity	40.00%	\$73,840,153	9.00%	\$6,645,614
Total	100.00%	\$184,600,382	6.20%	\$11,445,947

BHI provides an explanation of material changes in its actual capital structure; and any material differences between its actual and deemed capital structure in Section 5.2.

5.2 COST OF CAPITAL (RETURN ON EQUITY AND COST OF DEBT)

5.2.1 Overview

BHI provides the calculations for each of Return on Equity ("ROE"), Short-Term Debt and Long-Term Debt below.

5.2.2 Return on Equity

BHI has used an ROE of 9.00% in the 2026 Test Year in accordance with the Cost of Capital Parameters for 2025 cost-based applications, issued by the OEB on March 27, 2025, subject to an update if new parameters are available prior to the OEB rendering its Decision on this Application.

5.2.3 Short-Term Debt

BHI has used a short-term debt rate of 3.91% for the 2026 Test Year in accordance with the Cost of Capital Parameters for 2025 cost-based applications, issued by the OEB on March 27, 2025, subject to an update if new parameters are available prior to the OEB rendering its Decision on this Application.

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

5.2.3.1 Revolving Line of Credit

BHI has access to a revolving line of credit facility from TD bank, a third-party commercial bank, in the amount of \$20,000,000 that is secured by a general security agreement over BHI's assets.

5.2.3.2 Letter of Credit

BHI has obtained a Letter of Credit from a third-party Canadian bank in the amount of \$18,000,000 that has been issued in favour of the Independent Electricity System Operator ("IESO"). This Letter of Credit guarantees payment of BHI's electricity purchases to the IESO, who has not drawn upon this credit instrument.

5.2.4 Long-Term Debt

BHI has used a long-term debt rate of 4.36% for the 2026 Test Year, which is the weighted average of the interest on BHI's outstanding long-term debt instruments. A summary of BHI's long-term debt instruments is provided in Table 2 below.

Table 2 – 2026 Test Year and 2021 Long-Term Debt Instruments

Description	Lender	Affiliated or Third-Party Debt	Fixed or Variable Rate	Start Date	Term (years)	2026 Test Year		2021 Actuals	
						Principal	Rate	Principal	Rate
Promissory Note	City of Burlington	Affiliated	Fixed	Apr 10/2002	n/a	\$47,878,608	4.51%	\$47,878,608	2.85%
Debenture	Infrastructure Ontario	Third-Party	Fixed	Mar 15/2011	15	\$114,110	4.51%	\$3,950,504	4.51%
Promissory Note	Infrastructure Ontario	Third-Party	Fixed	Mar 8/2013	25	\$4,761,720	4.02%	\$6,192,536	4.02%
Promissory Note	Infrastructure Ontario	Third-Party	Fixed	Dec17/2018	15	\$3,991,312	3.63%	\$6,096,303	3.63%
Term Loan	TD Bank	Third-Party	Fixed	Mar 31/2021	10	\$2,549,641	2.47%	\$4,833,673	2.47%
Term Loan	TD Bank	Third-Party	Fixed	Jul 01/2025	10	\$9,228,706	4.51%		
Term Loan	TBD	Third-Party	Fixed	Jan 01/2026	10	\$9,634,611	4.51%		
Total						\$78,158,707	4.36%	\$68,951,624	3.05%

5.2.4.1 Promissory Note – City of Burlington – April 10/2002

The promissory note with the City of Burlington in the amount of \$47,878,608 is affiliated debt priced at the OEB's deemed long-term debt rate. The debt is priced at 4.51% in the 2026 Test Year in accordance with the Cost of Capital Parameters for 2025 cost-based applications issued by the OEB on March 27, 2025, subject to an update if new parameters are available prior to the OEB rendering its Decision on this Application. This promissory note is secured through a General Security Agreement and is due on demand to the City of Burlington. The City of Burlington has waived its right to demand payment until January 1, 2026. BHI attaches this promissory note as Appendix A.

5.2.4.2 Debenture – Infrastructure Ontario – March 15/2011

BHI obtained an Ontario Infrastructure Projects Corporation ("OIPC") debenture of \$10,000,000 on March 15, 2011 due March 16, 2026. The loan bears interest at a rate of 4.51%. The loan is payable in the amount of \$76,550 monthly principal and interest. This debenture is with the third-party commercial institution.

5.2.4.3 Promissory Note – Infrastructure Ontario – March 1/2013

BHI obtained a loan from the OIPC in the form of a Promissory Note of \$8,000,000 due March 1, 2038. The Note bears interest at a rate of 4.02%. The Note is payable in the amount of \$42,315 monthly principal and interest. This loan is with the third-party commercial institution.

5.2.4.4 Promissory Note – Infrastructure Ontario – December 17/2018

BHI obtained a loan from the OIPC in the form of a Promissory Note of \$7,000,000 due December 17, 2033. The note bears interest at a rate of 3.63%. The note is payable in the amount of \$50,490 monthly principal and interest. This loan is with the third-party commercial institution.

The OIPC facilities are secured by a general security agreement over the assets of BHI.

5.2.4.5 Term Loan – TD Bank – March 29/2021

BHI obtained a term loan facility of \$15,000,000 from the TD Bank on March 29, 2021 to support its capital expenditure requirements. BHI made a drawdown from this facility in the amount of \$5,000,000 on March 31, 2021 at a fixed rate of 2.47% expiring March 31, 2031. The outstanding amount is payable through monthly payments of principal and interest of \$47,065.

BHI plans to make another drawdown in the amount of \$10,000,000 on or about July 1, 2025 at a fixed rate of 4.51% expiring July 1, 2035. This amount will support BHI's ongoing capital expenditure requirements as presented in this Application. The outstanding amount for this is payable through expected monthly payments of principal and interest of \$104,411.

The loan is secured by a general security agreement over the assets of BHI.

5.2.4.6 New Term Loan – TBD – January 1/2026

BHI expects to issue new term loan in 2026 in the amount of \$10,000,000 to support its ongoing capital expenditure requirements as presented in this Application. BHI has used the OEB's current long-term debt rate of 4.51% as an estimate of the interest rate².

5.2.4.7 Long-Term Debt – Variance Analysis

² <https://www.oeb.ca/industry/rules-codes-and-requirements/cost-capital-parameter-updates>

BHI's forecasted long-term debt in the 2026 Test Year, as identified in Table 2 above, is approximately \$9.2 million higher than 2021 due to the drawdown of \$10,000,000 term loan in 2025 and the addition of the new term loan of \$10,000,000 on January 1, 2026. These additions were offset by reductions in the principal amounts of the OIPC debenture issued in 2011, the promissory notes issued in 2013 and 2018, and the TD Bank term loan drawn down in 2021.

BHI's long-term debt rate is expected to increase from 3.05% in 2021 to 4.36% in the 2026 Test Year due to the increase in (i) the long-term debt rate associated with the City of Burlington promissory note as determined by the OEB; (ii) the forecasted drawdown of \$10,000,000 from TD bank's term loan in 2025 at a rate of 4.51%; and iii) a forecasted new term loan of \$10,000,000 in the 2026 Test Year at a rate of 4.51%.

BHI is not planning to redeem any debt.

5.2.5 Preferred Shares

BHI has not issued any preference shares. As such, BHI has not and does not expect to record either a profit or a loss on redemption of debt and/or preference shares from 2021 to 2025.

5.2.6 Notional Debt

Notional debt is the difference between deemed debt and actual debt. Notional debt can be either positive (i.e., deemed debt is greater than actual debt) or negative (i.e., deemed debt is less than actual debt). BHI's notional long-term debt is \$25,217,506 as identified in Table 3 below. The notional debt attracts the weighted average cost of actual long-term debt rather than the current deemed long-term debt rate issued by the OEB.

Table 3 – Long-term Notional Debt

Description	Actual 1	Deemed Per Appendix 2-OA	Notional Debt
Long-Term Debt	\$78,158,707	\$103,376,214	\$25,217,506

1. Long-Term Debt as identified in Table 2

5.2.7 Historical ROE

BHI provides its historical Return on Equity (ROE) achieved for the years 2021-2023 in Table 4 below.

Table 4 – Historical ROE

Year	ROE Achieved
2021	6.06%
2022	7.39%
2023	8.11%

5.2.8 Overview of Financing Strategy

BHI secures financing as required to meet working capital needs, support infrastructure development and meet regulatory requirements while maintaining financial stability and liquidity. It partners with third parties such as banks and government agencies as applicable to secure funding. Financing requirements are informed by BHI’s long term financial plan including its Distribution System Plan.

1 **5.3 NOT-FOR-PROFIT CORPORATIONS**

- 2 BHI confirms that it is a for-profit corporation and that it does not have approved reserves from
3 any previous OEB decisions.

APPENDICES

Appendix A - City of Burlington Promissory Note

PROMISSORY NOTE

Principal Sum: C\$47,878,608.00*

FOR VALUE RECEIVED, the undersigned hereby unconditionally promises to pay to the order of the City of Burlington (the "City") on demand by the City the principal sum of **FORTY-SEVEN MILLION EIGHT HUNDRED AND SEVENTY-EIGHT THOUSAND SIX HUNDRED AND EIGHT DOLLARS* (\$47,878,608.00*)** (* this "Principal Sum" to be adjusted to the maximum "deemed amount" in keeping with the latest rate application to the Ontario Energy Board) in lawful money of Canada at 426 Brant Street, P.O. Box 5013, Burlington, Ontario, or such other place as the City may designate by notice in writing to the undersigned, and to pay interest on the Principal Sum at the rate of 7.25% **per annum (** or as deemed from time to time by the Ontario Energy Board) calculated and accruing on the principal amount remaining unpaid and overdue interest, if any, from the earlier of the date of opening of the electricity market as established by the Ontario Energy Board, or such other date as agreed by the City and the undersigned, until the Principal Sum is repaid to the City.

In order to accommodate the Ontario Energy Board mitigation directive, the interest rate of 7.25% will be mitigated for the first full year following market opening, or such other earlier agreed date, down to a rate of 2.42%. The mitigated rate for the second full year following market opening, or such other earlier agreed date, will be at the rate of 4.83%. The rate for the third full year will be at the full Ontario Energy Board allowable rate currently specified at 7.25%. Interest shall be calculated and payable quarterly in arrears on the last day of March, June, September and December at the same address with the first interest payable at the end of the quarter following market opening or such other earlier agreed date. Interest both before and after default and judgment on the principal amount and overdue interest shall accrue or be payable at the aforementioned rate. For greater certainty, no interest shall accrue or be payable by the undersigned to the City on the Principal Sum until the date of opening of the electricity market as established by the Ontario Energy Board or such other earlier date that is agreed by the City and the undersigned.

All payments or any part thereof may be extended, rearranged, renewed or postponed by the City. No delay or failure by the City to exercise any right or remedy against the undersigned shall be construed as a waiver of that or any right or remedy, nor shall any waiver hereunder be deemed to be a waiver of subsequent default. The City may, at any time, in accordance with the provisions of City By-Law 123-1999 and the applicable Ontario Energy Board Directives and after consultation with the undersigned, replace this promissory note for one or more debt instruments of the undersigned with any change to any provision hereunder, including reducing or increasing the rate of interest payable on the principal amount owing at the time of replacement, setting a date on which the principal amount hereunder is due and payable or adjusting the principal sum payable hereunder, all as evidenced by the written acceptance by said debt instrument or instruments by the Treasurer of the City.

The undersigned hereby waives presentment, demand, protest or other notice of every kind in the enforcement of the promissory note. All amounts owing hereunder will be paid by the undersigned without regard for any equities between the undersigned and the City or any right of set-off or cross-claim.

In the event of default hereunder, the undersigned agrees to pay all expenses, including without limitation, reasonable legal fees (on a solicitor and his own client basis), incurred by the City in endeavouring to enforce its rights hereunder. All such amounts shall bear interest at the rate mentioned above.

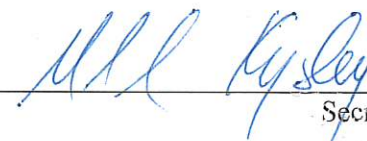
This promissory note is non-negotiable and non-assignable without the prior written consent of the undersigned.

This promissory note replaces the promissory note that was dated October 1, 2000 in the amount of \$39,000,000.

DATED at Burlington, Ontario, as of the 27th day of June, 2001.

BURLINGTON HYDRO INC.

By:  President

By:  Secretary-Treasurer