

1 **RESPONSES TO ONTARIO ENERGY BOARD STAFF**
2 **INTERROGATORIES**

3
4 **INTERROGATORY 5-STAFF-38**

5
6 Cost of Capital Parameters Update

7 Ref. 1: Exhibit 5

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9 Preamble:

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11 Entegrus Powerlines has followed the EB-2024-0063 Decision and Order (the “2025 Cost of Capital
12 Report”), dated March 27, 2025, to determine its capital structure and the 2026 cost of capital
13 parameters presented in this evidence. Entegrus Powerlines acknowledges these rates are subject to
14 change when the OEB issues the 2026 cost of capital parameters. Entegrus Powerlines will update
15 its short-term debt and return on equity rates based on the 2026 cost of capital parameters prior to
16 the rate order being finalized in this proceeding.

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18 On October 31, 2025, the Board issued a letter¹ to all distributors documenting the updated Cost of
19 Capital parameters for 2026 Cost of Service applications.

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21 Questions:

22 (a) Please update the appropriate tables in Exhibit 5, Appendices 2-OA, the Revenue Requirement
23 Work Form, and any other application documents to reflect changes in cost of capital parameters
24 considering the OEB’s letter on 2026 cost of capital parameters.

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27 **RESPONSE:**

28 (a) Exhibit 5, Table 5-4 has been updated below to reflect the Cost of Capital parameters issued
29 by the OEB on October 31, 2025. These changes have also been incorporated into the

¹ https://www.oeb.ca/sites/default/files/OEBLtr_2026%20CoC_20251031.pdf

1 revised live excel versions of the Revenue Requirement Work Form
2 (EPI_IRR_2026_Rev_Reqt_Workform_1.0 – 20251126) and Chapter 2 Appendices
3 (EPI_IRR_2026_Filing_Requirements_Chapter2_Appendices_1.0 20251126) as requested
4 in 1-Staff-1.

Capital Structure and Cost of Capital

Year: 2026 Test Year

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$106,594,385	4.34%	\$4,625,935
Short-term Debt	4.00% (1)	\$7,613,885	2.72%	\$207,098
Total Debt	60.0%	\$114,208,269	4.23%	\$4,833,033
Equity				
Common Equity	40.00%	\$76,138,846	9.11%	\$6,936,249
Preferred Shares		\$-		\$-
Total Equity	40.0%	\$76,138,846	9.11%	\$6,936,249
Total	100.0%	\$190,347,116	6.18%	\$11,769,282

Year: 2016 OEB Approved Proxy

Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$65,082,746	4.53%	\$2,947,736
Short-term Debt	4.00% (1)	\$4,648,768	1.78%	\$82,792
Total Debt	60.0%	\$69,731,514	4.35%	\$3,030,527
Equity				
Common Equity	40.00%	\$46,487,676	9.22%	\$4,285,347
Preferred Shares		\$-		\$-
Total Equity	40.0%	\$46,487,676	9.22%	\$4,285,347
Total	100.0%	\$116,219,190	6.29%	\$7,315,874

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Description	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)
CIBC 1B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 14,472,622	3.850%	\$ 557,195.96
CIBC 2B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 6,196,345	3.927%	\$ 243,330.48
CIBC 3B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 4,460,079	3.570%	\$ 159,224.81
CIBC 4B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 2,977,473	2.660%	\$ 79,200.78
CIBC 5B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 2,627,614	3.036%	\$ 79,774.37
CIBC 6B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 6,891,536	4.299%	\$ 296,267.13
CIBC 7B	Third-Party	Fixed Rate	1-Jan-24	25	\$ 4,687,878	5.290%	\$ 247,988.74
CIBC 8A	Third-Party	Fixed Rate	21-Dec-23	25	\$ 9,134,923	4.960%	\$ 453,092.16
Total					\$ 51,448,470	4.11%	\$ 2,116,074

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4 Questions:

5 (a) Please reconcile the weighted average interest rates in references 1 and 2.

6 (b) As stated in reference 1, former third-party lender applied a 25-basis point increase to its lending
7 rates. Please explain why did CIBC increase the interest rate of fixed rate debt instrument.

8 (c) Assuming 4.11% as per reference 2 is correct, why did Entegrus Powerlines decide to refinance
9 the debt with TD at a higher interest rate?

10 (d) Please provide the penalties, if any, levied by CIBC to terminate the 25-year fixed rate term.

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13 **RESPONSE:**

14 (a) The Application inadvertently reported an interest rate of 4.267% for the CIBC swaps in
15 Exhibit 5, Section 5.2.1, whereas the actual weighted rate was 4.11%. At the time of
16 refinancing, the CIBC swaps were initially novated to TD Bank at 4.11% with an average
17 remaining term of 21 years. EPI strategically applied a portion of the savings realized from
18 transitioning affiliate debt to TD to extend the swap term to 30 years, thereby enhancing rate
19 stability and better aligning debt maturity with the long-term nature of utility assets. This

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1 proactive decision increased the average swap rate to 4.267%, which remained below the
2 prevailing market rate of 4.46% for a new 30-year term, and provides greater cost certainty
3 and long-term financial resilience.
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5 (b) In 2023, CIBC amended the lending agreement to transition the underlying benchmark rate
6 from the Canadian Dollar Offered Rate (“CDOR”) to the Canadian Overnight Repo Rate
7 Average (“CORRA”) and to shorten the associated commitment period. Upon renewal of the
8 commitment period in 2024, CIBC increased the interest rate swap spread from 104 basis
9 points to 129 basis points. EPI will not speculate on why CIBC chose to introduce this
10 increase.
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12 (c) Please refer to the response in (a) above.
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14 (d) There were no penalties levied by CIBC to terminate the 25-year fixed rate term.
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1 **RESPONSES TO SCHOOL ENERGY COALITION**
2 **INTERROGATORIES**

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4 **INTERROGATORY 5-SEC-35**

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7 [Exhibit 5, p.7]

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9 Please update the Return on Equity and the Short-Term Debt Rate based on those issued by the OEB
10 on Cost of Capital Parameters (EB-2025-0303) dated October 31, 2025.

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14 **RESPONSE:**

15 Please refer to the response at 5-Staff-38.
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1 **RESPONSES TO VULNERABLE ENERGY CONSUMERS**
2 **COALITION INTERROGATORIES**

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4 **INTERROGATORY 5.0-VECC-27**

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6 Reference: Exhibit 5, page 9

7
8 “Second, in early 2024, EPI’s former third-party lender applied a 25 basis point increase to its
9 lending rates.”

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11
12 a) With reference to Appendix 2-OB (Debt Instruments), please identify which specific loans (e.g.
13 CIBC 6B etc.) for which the 25 basis point premium was added.

14 b) Please explain how the lender was able to adjust the EPI rate on the long term loans labeled in
15 Appendix 2-OB.

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18 **RESPONSE:**

19 a) The 25 basis point premium was applied to each of the CIBC Term Debt facilities (Term
20 Debt 1 through Term Debt 7) identified in Appendix 2-OB.

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22 b) Please refer to the response at 5-Staff-39 (b).
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1 **RESPONSES TO VULNERABLE ENERGY CONSUMERS**
2 **COALITION INTERROGATORIES**

3
4 **INTERROGATORY 5.0-VECC-28**

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6 Reference:

7 Exhibit 5, page 10

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9 “Third-party term debt totaling approximately \$52M, with an average interest rate of 4.267%, was
10 novated to TD Bank at the same average rate, ensuring no impact on EPI’s future interest costs.
11 Also, note that this rate is below the OEB’s most recent deemed long-term debt rate of 4.51%.”

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13
14 a) With reference to Appendix 2-OB please show the derivation that supports this statement.

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19 **RESPONSE:**

20 a) Please refer to the response at 5-Staff-39 (a).
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1 **RESPONSES TO VULNERABLE ENERGY CONSUMERS**
2 **COALITION INTERROGATORIES**

3
4 **INTERROGATORY 5.0-VECC-29**

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6 Reference:

7 Exhibit 5, page 11

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9 “It is estimated that EPI will borrow \$10,500,000 on 2 July 1, 2026, to fund capital asset additions
10 for the year. An interest rate of 4.60% has been 3 applied to this new borrowing, based on the
11 indicative rate provided by TD Bank as of July 2, 2025 for a 30-year amortizing term loan.”

12
13 a) Please confirm (or correct) that the loan referenced above is represented in Appendix 2-OB at
14 “TD 4” with a principal amount of \$5,730,978.

15 b) If this is correct please show the derivation of the principal and why it is different than 50% of
16 \$10.5 million.

17 c) What is the current quoted rate provided by TD Commercial Banking for a loan of \$10.5 million
18 with similar terms as that of “TD 1”?

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20 **RESPONSE:**

21 a) Confirmed.

22
23 b) In the Application, EPI inadvertently submitted the average principal amount from an earlier
24 version of the worksheet that reflected a prior assumed borrowing date. The correct average
25 principal amount for the planned \$10.5M borrowing in 2026 is \$5,264,384, calculated as
26 $\$10,500,000 \times 183 \text{ days} \div 365 \text{ days}$. This revision has been incorporated into the updated
27 live Excel version of the Revenue Requirement Work Form
28 (EPI_IRR_2026_Rev_Reqt_Workform_1.0_20251126) and Chapter 2 Appendices
29 (EPI_IRR_2026_Filing_Requirements_Chapter2_Appendices_1.0_20251126), as requested
30 in 1-Staff-1.
31

1 c) The current quoted rate provided by TD Commercial Banking for a loan of \$10.5 million
2 with a 30-year term is 4.504%.

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1 **RESPONSES TO VULNERABLE ENERGY CONSUMERS**
2 **COALITION INTERROGATORIES**

3
4 **INTERROGATORY 5.0-VECC-30**

5
6 Reference: Exhibit 5, page 9

7
8 “Committed revolving term loan with TD Bank - EPI has drawn \$8,000,000 from this revolving
9 credit facility, which has a total limit of \$10,000,000. The loan carries a variable interest rate set at
10 the TD Bank Prime Rate minus 35 basis points. This facility has been utilized to finance EPI’s
11 working capital requirements. For the purpose of determining the actual long-term debt rate in this
12 application, EPI has applied the OEB’s long-term debt rate of 4.51% to this credit facility for the
13 2026 Test Year, in alignment with the 2025 Cost of Capital Report issued on March 27, 2025.”

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15 a) Please specify which part of the 2025 Cost of Capital Report EPI is relying upon in the above
16 reference.
17 b) Given the revolving nature of the debt and the variable rate why should this debt not be classified
18 as short-term and have the Board’s short-term debt rate applied.
19 c) What was the actual debt rate applied most recently to this tranche of debt? Please explain how
20 the lender was able to adjust the rate on any loan which is labeled in Appendix 2-OB.

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24 **RESPONSE:**

25 a) In Schedule C, pg. II (PDF pg. 124) of the 2025 Cost of Capital Report issued on March 27,
26 2025 (EB-2024-0063), the OEB’s deemed long-term debt rate is identified as the ceiling for
27 variable-rate debt. At the time of filing, the TD Bank Prime Rate was 4.95% and had
28 averaged 5.07% since the inception of the facility in December 2024. Accordingly, EPI
29 applied the OEB’s deemed long-term debt rate of 4.51% to this credit facility.

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31 b) Although termed a “revolving” credit facility, it is expected to remain substantially drawn
32 on a long-term basis, as it primarily finances specialized working capital requirements,

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1 particularly regulatory deferral account balances, which have averaged approximately \$8
2 million over the past two years. In addition, if this facility were to be classified as short-term
3 debt, it would be replaced in the long-term debt rate calculation with notional debt at the
4 OEB's deemed long-term debt rate.

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6 c) Since inception of this facility in December 2024, the TD Bank Prime Rate has averaged
7 5.01%. Based on the facility's spread of 35 basis points below Prime, the effective interest
8 rate since inception is 4.66%.

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1 **RESPONSES TO VULNERABLE ENERGY CONSUMERS**
2 **COALITION INTERROGATORIES**

3
4 **INTERROGATORY 5.0-VECC-31**

5
6 Reference: Exhibit 5, page 9

7
8 “EPI’s deemed and actual long-term debt amounts are similar. For 2026, the amount of actual long-
9 term 4 debt of \$114,641,708 (see Table 5-6) exceeds the deemed long-term debt amount of
10 \$114,208,269 (see 5 Table 5-4) by \$433,439.”

11
12 a) What would be the change to the weighted cost of long term debt (4.34%) if the amount of
13 \$433,439 were removed from the costliest debt (i.e. 6.5%) as shown in Appendix 2-OB (Debt
14 Instruments).

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17 **RESPONSE:**

18 a) The weighted cost of long-term debt would remain at 4.34% if the amount of \$433,439 were
19 removed from the costliest debt.

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