

EXHIBIT 5 – COST OF CAPITAL
2027 Cost of Service

Rideau St-Lawrence Distribution Inc.
EB-20264-0069

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5.1 CAPITAL STRUCTURE

In this Exhibit, RSL outlines its capital structure, debt financing, and the calculation of its return on equity (ROE) for the 2027 Test Year. The utility seeks to recover a weighted average cost of capital of 5.93% through rates in the 2027 Test Year, adhering to the appropriate policies for determining the cost of capital.

Key Components of Cost of Capital Calculation:

Capital Structure:

RSL has applied the OEB's deemed capital structure, consisting of 56% long-term debt, 4% short-term debt, and 40% equity.

Return on Equity (ROE):

RSL has applied the most recently published ROE of 9.11% in accordance with the OEB's Cost of Capital Parameters for 2027 cost of service applications.

Commitment to Update:

RSL acknowledges that the OEB may update the deemed ROE, long-term debt, and short-term debt rates for 2027 rate applications. RSL will update this application to reflect any revised parameters issued by the OEB prior to the final decision.

Use of Actual Debt Costs:

While RSL applies the OEB's deemed capital structure for ratemaking purposes, the utility has used its weighted average actual cost of long-term and short-term debt in calculating the cost of capital. The resulting cost of debt is lower than the OEB's deemed long-term debt rate of 3.88% and is therefore consistent with OEB policy, which permits the use of actual debt costs where they are lower than deemed rates. The use of actual debt costs results in a lower overall cost of capital and is therefore beneficial to ratepayers.

Debt Instruments:

RSL maintains certain legacy and operational debt instruments, including shareholder promissory notes and a line of credit, which are disclosed in Appendix 2-OB for transparency and continuity. The long-term debt component reflects a combination of actual debt instruments and notional debt required to align with the OEB's deemed capital structure.

Transaction / issuance Costs:

RSL has not incurred any material transaction or issuance costs associated with its debt instruments; therefore, no adjustments have been made to the cost of debt.

Return on Equity – Use of Funds:

RSL confirms that it is a for-profit corporation. Revenues derived from the return on equity components of the cost of capital are used to support ongoing distribution operations. RSL does not propose to establish or fund any reserve accounts from ROE in the 2027 Test Year.

Profit/loss on redemption of debt

RSL has not incurred any gains or losses on the redemption of debt.

Financial Forecast:

RSL's forecasted cost of capital and return on rate base for the 2027 Test Year are presented in Table 1. For comparison, Table 2 shows the previously approved capital structure.

Treatment of Notional Debt

Notional debt is included as required to align with the OEB's deemed capital structure.

Tables 1 and 2 (Appendix 2-OA) present RSL’s capital structure and cost of capital for the 2022 Board-approved and 2027 Test Year, respectively. These tables summarize the rate base, capital structure, and applicable cost rates used to calculate the return on rate base. The 2027 Test Year incorporates the OEB’s deemed capital structure and current cost of capital parameters, while the 2022 values reflect those previously approved by the OEB.

Table 1 – 2027 Capital Structure and Statement of Rate Base (Appendix 2-OA)

Particulars	Cap Ratio %	Cap Ratio \$	Cost Rate %	Return \$
Debt	(%)	(\$)	(%)	(\$)
Long-term Debt (Notional)	15.03%	\$2,337,062	3.88%	\$90,678
Long-term Debt (Actual)	40.97%	\$6,368,518	3.88%	\$247,097
Short-term Debt	4.00%	\$621,827	2.72%	\$16,914
Total Debt	60.00%	\$9,327,407	3.80%	\$354,688
Equity				
Common Equity	40.00%	\$6,218,271	9.11%	\$566,485
Preferred Shares		\$0		\$0
Total Equity	40.00%	\$6,218,271	9.11%	\$566,485
Total	100.00%	\$15,545,678	5.93%	\$921,173

Table 2 – 2022 Capital Structure and Statement of Rate Base (Appendix 2-OA)

Particulars	Capitalization Ratio	Cost Rate	Return
	(%)	(\$)	(%)
Debt			
Long-term Debt	56.00%	\$4,413,291	3.69
Short-term Debt	4.00%	\$315,235	1.17
Total Debt	60.00%	\$4,728,526	\$166,335
Equity			
Common Equity	40.00%	\$3,152,351	8.66
Preferred Shares	0.00%	\$ -	0
Total Equity	40.00%	\$3,152,351	\$272,994
Total	100.00%	\$7,880,877	5.57

5.2. RETURN ON EQUITY

The calculation of the return on equity is presented in Table 1. This section provides context on RSL’s historical achieved ROE and its proposed ROE for the 2027 Test Year.

5.2.1 Return on Equity

RSL has applied the OEB’s most recently published deemed ROE of 9.11% for the 2027 Test Year and is not proposing any changes to this parameter.

Table 3 below presents RSL’s historical achieved ROE for the period 2022 to 2025, compared to the 2022 Board-approved ROE of 8.66% applicable during that period.

RSL’s achieved ROE has fluctuated and has remained below the Board-approved level and outside of the OEB’s ±300 basis point deadband. This variability is inherent to small utility operations. A limited customer base combined with a largely fixed cost structure means that even minor fluctuations in revenue or expenses can materially affect net income and achieve ROE.

A significant portion of RSL’s costs including contractual services, rent, and payroll, are fixed in nature and do not vary with short-term changes in load or revenue. As a result, reductions in revenue or modest increases in costs can materially affect earnings and lead to volatility in achieved ROE.

RSL monitors its financial performance through its annual budgeting process and considers the Board-approved ROE and associated deadband in its planning. While actual results may vary year over year, RSL’s proposed ROE remains aligned with OEB policy.

RSL does not propose to establish or fund any reserve accounts from ROE, nor are these funds used for non-distribution activities.

Table 3 – Historical Return on Equity Achieved

	2022	2023	2024	2025
2022 Board Approved	8.66%	8.66%	8.66%	8.66%
Actual Achieved	0.80%	4.88%	5.48%	2.28%
				Prelim

5.2.3 Long-Term, Short-Term Debt

RSL's debt instruments originate from historical capitalization and prior capital investments. The utility has provided continuity with prior filings by presenting the status of previously reported instruments and their treatment in the Bridge and Test Years.

Debt instruments reported in RSL's 2022 filings do not all remain outstanding in the 2027 Test Year. As described below, certain prior-year instruments have been repaid or consolidated, resulting in a simplified debt structure in the Test Year.

Summary of 2027 Debt Instruments

RSL's 2027 debt portfolio consists of affiliate debt that is directly passed through RSL affiliate. RSL also has two promissory notes from its shareholders. No short-term debt is outstanding. These balances form the basis of the utility's weighted average cost of debt, as reflected in Table 1.

Long-Term Debt

RSL's long-term debt in the 2027 Test Year consists of two affiliated promissory notes: \$225,000 with the Township of Edwardsburgh/Cardinal and \$938,352 with the Township of South Dundas. Each lender holds less than a 50% ownership interest in RSL and does not exercise control or significant influence over the utility. Accordingly, these obligations are considered non-sundered to be with non controlling lenders.

Both instruments are callable on demand and bear a contractual interest rate of 3.72%. While the lenders are shareholders, the terms and conditions of the notes are consistent with those that could reasonably be obtained in the market for similar financing arrangements, and there are no provisions that would suggest the instruments are equity in substance.

Consistent with OEB policy, these balances have been assigned the deemed long-term debt rate of 4.73% for cost of capital purposes, rather than contractual rate. This approach ensures that the revenue requirement reflects the OEB's standardized cost of capital parameters.

Additionally, RSL has affiliated loans that have been directly passed through from the parent company originating from the banks. These loans total to \$4.7M in 2026 and have varying terms and can be found listed in Table 5. RSL anticipates consolidating these loans into one larger consolidated debt for 2027.

No other long-term debt is outstanding in the Test Year. The weighted average cost of long-term debt reflects these balances and the applicable deemed rate, as presented in Table 1.

Short-Term Debt

No short-term debt is forecast in the Test Year. Accordingly, the deemed short-term debt rate, as established under the OEB's cost of capital parameters, has been applied.

Excluded Instruments

RSL has not excluded any debt instruments from the cost of capital calculation.

Weighted Average Cost of Debt

The weighted average cost of debt has been calculated based on the principal balances and applicable deemed rates described above. This results in a weighted average cost of debt of 3.88%, as reflected in Table 1.

Debt management strategy

RSL does not forecast the issuance of new external debt. The 2027 debt structure reflects the consolidation of multiple 2026 debt instruments into affiliated financing arrangements, resulting in a simplified portfolio comprised of the two promissory notes described above. This represents a continuation of existing financing practices rather than new borrowing.

Appendix 2-OB is presented below

Table 4 – Appendix 2-OB (2027 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2027	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/ Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	4.73%	\$10,642.50	4.73%
								\$0.00	
								\$0.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	4.73%	\$44,384.05	4.73%
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	20-Jan-23	4			\$0.00	\$4.93% is rate charged by TD/ 1 month
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-24	3			\$0.00	\$5.12% is rate charged by TD/ 3months
Line of Credit	Parent Company/TD Bank			20-Jan-23				\$0.00	
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-26	3	\$5,205,166.00	3.69%	\$192,070.63	
TOTAL						\$6,368,518.00	3.88%	\$247,097.18	

Table 5 – Appendix 2-OB (2026 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2026	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/ Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	3.72%	\$8,370.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	3.72%	\$34,906.72	
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	20-Jan-23	4	\$2,239,944.00	4.93%	\$110,472.00	\$4.93% is rate charged by TD
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-24	3	\$524,680.00	5.12%	\$26,862.54	\$5.12% is rate charged by TD
Line of Credit	Parent Company/TD Bank		Variable Rate	20-Jan-23			4.45%	\$8,000.00	
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	16-Dec-25	1	\$731,380.00	3.69%	\$27,361.00	\$3.94% is rate charged by TD
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-26	1	\$1,242,333.73	3.69%	\$59,026.98	
						\$5,901,689.73	4.66%	\$274,999.24	

Table 6 – Appendix 2-OB (2025 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2025	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	3.72%	\$8,370.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	3.72%	\$34,906.72	
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	20-Jan-23	4	\$2,279,431.00	4.93%	\$112,374.00	\$4.93% is rate charged by TD
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-24	3	\$530,216.04	5.12%	\$27,471.67	\$5.12% is rate charged by TD
Line of Credit	Parent Company/TD Bank		Variable Rate	20-Jan-23		\$1,500,000.00		\$8,000.00	
TOTAL						\$5,472,999.04	3.49%	\$191,122.39	

Table 7 – Appendix 2-OB (2024 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2024	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	3.72%	\$8,370.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	3.72%	\$34,906.72	
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	20-Jan-23	4	\$2,298,263.10	4.93%	\$114,613.82	\$4.93% is rate charged by TD
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	13-Mar-24	3	\$541,793.45	5.12%	\$21,080.26	\$5.12% is rate charged by TD
Line of Credit	Parent Company/TD Bank		Variable Rate	20-Jan-23		\$1,500,000.00			
TOTAL						\$5,503,408.55	3.25%	\$178,970.80	

Table 8 – Appendix 2-OB (2023 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2023	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	3.72%	\$8,370.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	3.72%	\$34,906.72	
Posi Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10		3.95%	\$646.60	replaced with TD Jan 20/23
Line of Credit	Bank of Montreal	Third-Party	Variable Rate	01-Jan-22	Demand		3.45%	\$985.00	replaced with TD Jan 20/23
LTD	Parent Company/TD Bank	Affiliated	Fixed Rate	20-Jan-23	4	\$2,334,626.12	4.93%	\$107,281.61	\$4.93% is rate charged by TD
Line of Credit	Parent Company/TD Bank			20-Jan-23					
TOTAL						\$3,497,978.12	4.35%	\$152,189.93	

Table 9 – Appendix 2-OB (2022 Debt Instruments)

DEBT INSTRUMENTS									
Description for 2022	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)	Additional Comments, if any
Promissory Note	Township of Edwardsburgh/ Cardinal	Third-Party	Fixed Rate	01-Aug-01	Demand	\$225,000.00	3.72%	\$8,370.00	
Promissory Note	Township of South Dundas	Third-Party	Fixed Rate	01-Aug-01	Demand	\$938,352.00	3.72%	\$34,906.72	
Posi Digger Truck	Bank of Montreal	Third-Party	Variable Rate	15-Jun-17	10	\$203,631.00	3.95%	\$7,562.81	
Line of Credit	Bank of Montreal	Third-Party	Variable Rate	01-Jan-22	Demand	\$400,000.00	3.45%	\$33,646.55	
TOTAL						\$1,766,983.00	4.78%	\$84,486.08	