



**London Hydro**

**Exhibit 5 Interrogatories  
Response to Interrogatories  
EB-2016-0091**

**Rates Effective: May 1, 2017**

**Date Filed: January 17, 2017**

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N6A 4H6



File Number: EB-2016-0091

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Exh 5 LPMA Interrogatories



File Number: EB-2016-0091

Interrogatories for Exhibit: 5

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Schedule: 1

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1 5-LPMA-46

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3 Ref: Exhibit 5, Tab 1, Schedule 1

4

5 **Please reconcile the \$23.5 million smart meter loan noted at lines 15-22 of page 2 with the**  
6 **\$\$20.5 million smart meter loan described at lines 5-11 of page 4.**

7

8 [LH Response:](#)

9 The \$23.5 million was the total amount available under the facility, where the \$20.5 million was

10 the initial amount actually borrowed against the facility.



1 5-LPMA-47

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3 **Ref: Exhibit 5, Tab 1, Schedule 1**

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5 **After borrowing \$20 million in 2017, the actual long term debt will be just under \$110**  
6 **million, while the deemed long term debt is just under \$170 million. Please explain why**  
7 **London Hydro continues to be underleveraged relative to its deemed capital structure.**

8 LH Response:

9 London Hydro continues to maintain debt capacity lower than the deemed debt levels to allow  
10 for future debt capacity to undertake certain projects. Examples of such projects are to those in  
11 the area of mergers or acquisitions.

12 Another significant benefit of having debt capacity is the favourable interest rates provided by  
13 banks and other financial organizations as London Hydro is considered to be a lower risk utility  
14 based on our current debt structure. This allows London Hydro to have a lower cost of capital  
15 compared to many of our peers keeping costs lower for our customers.



1 5-LPMA-48

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3 **Ref: Exhibit 5, Tab 1, Schedule 1**

4

5 **a) What is the forecasted term of the future debt forecast for July, 2017 of \$20 million?**

6

7 LH Response:

8 The forecasted term would be approximately 5 years.

9

10 **b) Does London Hydro propose to have this debt mature at the same time as the Royal**  
11 **Bank loan of \$85 million which matures in 2022?**

12

13 LH Response:

14 Yes, the intention is to have any new debt facilities mature at the same time as the Royal Bank  
15 loan, at which time all debt facilities could be combined into a single facility at hopefully a lower  
16 interest rate than by having multiple debt instruments.



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Exh 5 VECC Interrogatories



1 5-VECC-53

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3 Reference: E1/T8/S1 Rating Agency Report

4

5 At page 2 of the S&P Global Ratings it states: *“We believe an upgrade during*  
6 *the next two years is highly unlikely. However, we would consider one if the*  
7 *company were to implement a well-articulated financial and dividend policy*  
8 *aligned with a shareholder agreement, which enshrined the current modest*  
9 *balance sheet leverage. As well we would have to be satisfied that there was*  
10 *negligible potential for alignment with a more highly levered deemed capital*  
11 *structure used by the Ontario regulator for setting rates. In that case, we*  
12 *would could reduce the impact of the financial policy modifier, raising the*  
13 *rating.*

14

15 a) In light these comments and London Hydro’s significant under leverage  
16 what changes have been considered financing the utility?

17 [LH Response:](#)

18 [Please reference 1-SEC #12.](#)



1 5-VECC-54

2

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3 a) Infrastructure Ontario currently offers serial and amortizer loans of varying  
4 terms for rates between 2.16% and 3.94%. These rates are lower than  
5 those discussed in the evidence. Given this, please explain why London  
6 Hydro is not considering borrowing from Infrastructure Ontario?

7 [LH Response:](#)

8 When entering into a long term debt agreement, London Hydro will issue a RFP (as was done  
9 for both the Smart Meter loan and the \$85 million loan). At that point in time companies will be  
10 given the opportunity to bid on the process. Infrastructure Ontario will be welcome to submit a  
11 bid.