



EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE



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Exhibit 5 – Cost of Capital

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5.1 OVERVIEW

London Hydro was incorporated November 7, 2000 in accordance with the requirements of the *Electricity Act, 1998*, S.O. 1998, c.15, Sched. A.

London Hydro is a wholly-owned subsidiary of the Corporation of the City of London, providing electrical distribution services to the inhabitants of the City of London.

London Hydro has disposed of all its related party debt since the last Cost of Service application in 2017. Now all debt is held with third parties.

Share capital consists of 1,001 common shares issued to the Corporation of the City of London in the amount of \$96,116,000.

Since the time of the last application, there have been no additional issuances or redemption of any type of shares (common or preferred) and as such, there has been no profit or loss associated with the redemption of shares.

London Hydro confirms there has been no realized profit or loss recorded on the redemption of debt. London Hydro also confirms there has been no unrealized gains or losses of debt recorded in the test year.

Capital Structure:

On page 59 of the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, dated December 11, 2009 (the "Cost of Capital Report"), the OEB determined that for rate making purposes, the OEB will deem a single capital structure of 60% debt (56% long-term, 4% short-term)/40% equity for all distributors.



In the current Application, London Hydro is maintaining its deemed debt/equity structure for rate making purposes at 60% (56% long-term and 4% short-term)/40% in accordance with the OEB directions in the Cost of Capital Report.

London Hydro continues to have an actual debt/equity structure that departs from the OEB deemed structure for rate making purposes, but is not proposing any departure from the deemed structure for the purposes of rate making in this Application.

The following table provides the details of London Hydro’s Board Approved and Actual capital structures.

Table 5-1 - Capital Structure

	2017 Board Approved Deemed		2017 Actual		2018 Actual		2019 Actual		2020 Actual		2021 Bridge		2022 Test Year Deemed	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Long term debt	167,758,520	56.0%	118,826,000	38.5%	141,522,000	43.4%	155,000,000	43.1%	200,000,000	53.3%	207,853,894	56.0%	214,739,806	56.0%
Short term / unfunded debt	11,982,751	4.0%	30,000,000	0.0%	15,000,000	4.6%	30,000,000	8.3%	-	0.0%	14,846,707	4.0%	15,338,558	4.0%
Total debt	179,741,272	60.0%	148,826,000	48.2%	156,522,000	48.0%	185,000,000	51.4%	200,000,000	53.3%	222,700,600	60.0%	230,078,364	60.0%
Common equity	119,827,514	40.0%	159,833,000	51.8%	169,329,000	52.0%	174,690,000	48.6%	175,136,000	46.7%	148,467,067	40.0%	153,385,576	40.0%
Total Rate Base	299,568,786	100.0%	308,659,000	100.0%	325,851,000	100.0%	359,690,000	100.0%	375,136,000	100.0%	371,167,667	100.0%	383,463,940	100.0%

Cost of Debt:

On page 59 of the OEB’s Cost of Capital Report, the OEB determined that the 60% deemed debt component for rate making purposes would be comprised of a short-term debt amount to be fixed at 4% and a long-term debt amount of 56% of the rate base. Pursuant to those directions, London Hydro has incorporated those changes within this Application.

On November 9, 2020 the OEB issued an update to the cost of capital parameters for the 2021 Cost of Service applications. The short-term debt rate pursuant to that update was 1.75% and the long-term debt rate was 2.85%. London Hydro acknowledges these parameters and has utilized the short-term debt rate figure into this Application. London Hydro acknowledges that the OEB will be finalizing the deemed debt rates for applications for May 1, 2022 rates based on



January 2022 market interest rate information and this Application will need to be revised if those debt rates change from the November 9, 2020 updated values.

Long-Term Debt:

London Hydro's long-term debt consists of third party debt held by Royal Bank through the issuance of two swap agreements and two SWAP agreements held by TD Bank.

In 2014, London Hydro entered into a swap agreement in the amount of \$85,000,000 which matures June 2022 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.46% plus a stamping fee of 0.19% for an all-in rate of 2.65%. The stamping fee part of the agreement was modified in 2019 and then again in 2021. The current stamping fee which will remain until the loan matures is 0.37% for an all-in rate of 2.83%. The debt agreement is interest only.

In 2018, London Hydro entered into a swap agreement in the amount of \$40,000,000 which also matures June 2022 which effectively converts variable interest rates on unsecured Banker's Acceptances to an effective interest rate of 2.70% plus a stamping fee of 0.28% for an all-in rate of 2.98%. The debt agreement is interest only.

In 2020, London Hydro entered into a swap agreement in the amount of \$75,000,000 which matures June 2032 which effectively converts variable interest rates on unsecured Banker's Acceptances to an effective interest rate of 1.53% plus a stamping fee of 0.44% for an all-in rate of 1.97%. The interest rate is committed until 2022 while the stamping fee is to be renewed in 2025. The debt agreement is interest only.

In 2020, London Hydro also entered into a future swap agreement in the amount of \$125,000,000 that takes effect in June 2022 to replace the existing swap agreements held with RBC and matures in June 2032. The effective interest rate on this future contract is 1.69% with a stamping fee of 0.44% for an effective all-in rate of 2.13%. The debt agreement is interest only.



Short-Term Debt:

London Hydro has an uncommitted operating revolving line of credit facility of \$20.0 million with the Toronto Dominion Bank. As of December 31, 2020, the amount drawn by the Company under this line of credit was \$ nil. The line of credit is unsecured and interest is at bank prime rate less 0.5%.

Future Debt:

London Hydro does not expect to borrow any additional funds between the date of this application which includes all amounts above and the end of 2022.

A schedule of London Hydro’s actual and Board-approved cost of debt for the period 2017 to 2022 is provided in the following table.

Table 5-2 - Cost of Debt

	2017 Board Approved Deemed	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Bridge	2022 Board Prescribed	2022 Test Year
Long term Debt	2.67%	2.68%	2.84%	2.95%	2.51%	2.54%	2.85%	2.30%
Short-term	1.76%	0.00%	0.00%	0.00%	0.00%	0.00%	1.75%	1.75%



The following tables support the amounts reported in [Table 5-2 - Cost of Debt](#) as required in this Exhibit.

		Year		2017					
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$) (Note 1)
1	RBC SWAP #1	Royal Bank	Third-Party	Fixed Rate	1-Oct-10	7.75	\$ 3,826,000	3.33%	\$ 127,405.80
2	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 85,000,000	2.65%	\$ 2,252,500.00
3	TD Loan	TD Bank	Third-Party	Variable Rate	31-Mar-17	2	\$ 30,000,000	2.70%	\$ 810,000.00
Total							\$ 118,826,000	2.68%	\$ 3,189,905.80
		Year		2018					
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$) (Note 1)
1	RBC SWAP #1	Royal Bank	Third-Party	Fixed Rate	1-Oct-10	7.75	\$ 1,522,000	3.33%	\$ 50,682.60
2	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 85,000,000	2.65%	\$ 2,252,500.00
3	RBC SWAP #3	Royal Bank	Third-Party	Fixed Rate	1-Feb-18	4.4	\$ 40,000,000	2.98%	\$ 1,192,000.00
4	TD Loan	TD Bank	Third-Party	Variable Rate	31-Mar-18	3	\$ 15,000,000	3.45%	\$ 517,500.00
Total							\$ 141,522,000	2.84%	\$ 4,012,682.60
		Year		2019		Historic Year			
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 85,000,000	2.76%	\$ 2,346,000.00
2	RBC SWAP #3	Royal Bank	Third-Party	Fixed Rate	1-Feb-18	4.4	\$ 40,000,000	2.98%	\$ 1,192,000.00
3	TD Loan	TD Bank	Third-Party	Variable Rate	31-Mar-18	3	\$ 30,000,000	3.45%	\$ 1,035,000.00
Total							\$ 155,000,000	2.95%	\$ 4,573,000.00
		Year		2020		Historic Year			
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 85,000,000	2.76%	\$ 2,346,000.00
2	RBC SWAP #3	Royal Bank	Third-Party	Fixed Rate	1-Feb-18	4.4	\$ 40,000,000	2.98%	\$ 1,192,000.00
3	TD SWAP	TD Bank	Third-Party	Fixed Rate	4-Dec-20	12	\$ 75,000,000	1.97%	\$ 1,477,500.00
Total							\$ 200,000,000	2.51%	\$ 5,015,500.00



			Year	2021	Bridge Year				
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$) (Note 1)
1	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 85,000,000	2.83%	\$ 2,405,500.00
2	RBC SWAP #3	Royal Bank	Third-Party	Fixed Rate	1-Feb-18	4.4	\$ 40,000,000	2.98%	\$ 1,192,000.00
3	TD SWAP	TD Bank	Third-Party	Fixed Rate	4-Dec-20	12	\$ 75,000,000	1.97%	\$ 1,477,500.00
Total							\$ 200,000,000	2.54%	\$ 5,075,000.00

			Year	2022	Test Year				
Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$) (Note 1)
1	RBC SWAP #2	Royal Bank	Third-Party	Fixed Rate	29-Nov-14	7.75	\$ 42,500,000	2.83%	\$ 1,202,750.00
2	RBC SWAP #3	Royal Bank	Third-Party	Fixed Rate	1-Feb-18	4.4	\$ 20,000,000	2.98%	\$ 596,000.00
3	TD SWAP	TD Bank	Third-Party	Fixed Rate	4-Dec-20	12	\$ 75,000,000	1.97%	\$ 1,477,500.00
4	TD SWAP #2	TD Bank	Third-Party	Fixed Rate	4-Dec-20	12	\$ 62,500,000	2.13%	\$ 1,331,250.00
Total							\$ 200,000,000	2.30%	\$ 4,607,500.00

Return on Equity:

London Hydro is requesting a Return on Equity (“ROE”) for the 2022 Test Year of 8.34% in accordance with the OEB’s updated cost of capital parameters and ROE calculations issued on November 9, 2020. London Hydro understands that the OEB will be finalizing the ROE parameter for applications for May 1, 2022 rates based on January 2022 market interest rate information and that the OEB will request that this Application be revised if the ROE amount changes from the November 9, 2020 updated values. A schedule of London Hydro’s 2017 Board Approved and 2022 Test Year returns on equity and debt are presented in the following table:



Table 5-3 - Return on Rate Base

	2017 Board Approved		2022 Test Year	
	Amount	%	Amount	%
Total Rate Base	299,568,786		383,463,940	
Long term debt	167,758,520	56%	214,739,806	56%
Short term debt	11,982,751	4%	15,338,558	4%
Common equity	119,827,514	40%	153,385,576	40%
	299,568,786		383,463,940	
Interest on long term debt	4,479,153	2.67%	4,939,016	2.30%
Interest on short term debt	210,896	1.76%	268,425	1.75%
Return on common equity	10,520,856	8.78%	12,792,357	8.34%
Return on Rate Base	15,210,905	5.08%	17,999,797	4.69%