

2024 Cost of Service

# EXHIBIT 5: COST OF CAPITAL & CAPITAL STRUCTURE



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## 2.5 Exhibit 5: Cost of Capital and Capital Structure

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The purpose of this evidence is to provide an overview of Wasaga Distribution Inc.'s (WDI) capital structure, its debt financing, and the calculation of its return on equity for the 2024 Test Year.

Detailed schedules on capital structure and debt issuances can also be found in this Exhibit, Chapter 2 Appendix 2-OA, and Chapter 2 Appendix 2-OB.

### 2.5.1 Capital Structure

WDI seeks to recover a weighed average cost of capital (WACC) of 6.22% through rates in the 2024 Test Year. WDI's capital structure for rate-making purposes and the ensuring evidence has been prepared in accordance with the "Report of the Board on Cost of Capital for Ontario's Regulated Utilities" (EB-2009-0084, December 11, 2009), the "Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities" (January 14, 2016), as well as the "Cost of Capital Parameters Updates" (October 27, 2016).

In calculating the cost of capital, WDI has used the Ontario Energy Board's (OEB) deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the most recent published allowable return on equity (ROE) rate of 9.36% per the OEB's prescribed Cost of Capital Parameters published for the 2023 Cost of Service Applications.

For short-term and long-term debt, WDI has used the following rates:

- Short-term Debt: 4.79% (OEB January 1, 2023, deemed short-term rate)
- Long-term Debt: 4.08% (Calculated as per OEB Appendix 2-OB\_Debt Instruments)

1

**Table 5.1: Deemed Capital Structure**

Particulars	Capitalization Ratio		Cost Rate	Return
	%	\$	%	\$
Debt				
Long-term Debt	56.0%	13,857,870	4.08%	565,311
Short-term Debt	4.0%	989,848	4.79%	47,414
<b>Total Debt</b>	<b>60.0%</b>	<b>14,847,718</b>	<b>4.13%</b>	<b>612,724</b>
Equity				
Common Equity	40.0%	9,898,479	9.36%	926,498
Preferred Shares	0.0%	-	-	-
<b>Total Equity</b>	<b>40.0%</b>	<b>9,898,479</b>	<b>9.36%</b>	<b>926,498</b>
<b>Total</b>	<b>100.0%</b>	<b>24,746,197</b>	<b>6.22%</b>	<b>1,539,222</b>

2

3 WDI understands that the OEB may update the ROE for 2024 at a later date, and therefore commits to  
 4 updating its Cost of Service (COS) application to reflect the OEB's updated Cost of Capital Parameters  
 5 for May 1, 2024, applications and as new information is issued.

6

7 WDI has negotiated with its Shareholder to set the interest rate on its demand promissory note, issued  
 8 in the year 2001, at the deemed or approved rate by the OEB in connection with the then current  
 9 decision and order issued by the OEB.

10

11 **2.5.1.1 OEB Appendix 2-OA Cost of Capital**

12 The table below presents the capital structure for the last Board Approved (2016) and the 2024 Test  
 13 Year.

1 **Table 5.2: 2016 Board Approved Capital Structure**

Last OEB-approved year: 2016				
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)		
Debt				
Long-term Debt	56.00%	8,026,128	3.79%	304,190
Short-term Debt	4.00%	573,295	1.65%	9,459
<b>Total Debt</b>	<b>60.00%</b>	<b>8,599,423</b>	<b>3.65%</b>	<b>313,650</b>
Equity				
Common Equity	40.00%	5,732,948	9.19%	526,858
Preferred Shared	0.00%	-	0.00%	-
<b>Total Equity</b>	<b>40.00%</b>	<b>5,732,948</b>	<b>9.19%</b>	<b>526,858</b>
<b>Total</b>	<b>100.00%</b>	<b>14,332,371</b>	<b>5.86%</b>	<b>840,508</b>

2  
 3 **Table 5.3: 2024 Test Year Capital Structure**

Test Year: 2024				
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)		
Debt				
Long-term Debt	56.00%	13,857,870	4.08%	565,311
Short-term Debt	4.00%	989,848	4.79%	47,414
<b>Total Debt</b>	<b>60.00%</b>	<b>14,847,718</b>	<b>4.13%</b>	<b>612,724</b>
Equity				
Common Equity	40.00%	9,898,479	9.36%	926,498
Preferred Shared	0.00%	-	0.00%	-
<b>Total Equity</b>	<b>40.00%</b>	<b>9,898,479</b>	<b>9.36%</b>	<b>926,498</b>
<b>Total</b>	<b>100.00%</b>	<b>24,746,197</b>	<b>6.22%</b>	<b>1,539,222</b>

4  
 5 **2.5.1.2 OEB Appendix 2-OB Cost of Debt Instruments**

6 Appendix 2-OB below presents the debt for all required historical years, the 2023 Bridge Year, and the  
 7 2024 Test Year, illustrating the weighted average cost of long-term debt.



1

**Table 5.4: 2016 to 2024 Debt Instruments**

Year	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%)	Interest (\$)
2016	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2017	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2018	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2019	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2020	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2020	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	26-May-20	360 months	\$ 1,521,861	2.83%	\$ 24,990
<b>Total 2020</b>							<b>\$ 5,115,130</b>	<b>3.14%</b>	<b>\$160,815</b>
2021	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2021	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	26-May-20	360 months	\$ 1,502,908	2.83%	\$ 42,532
<b>Total 2021</b>							<b>\$ 5,096,177</b>	<b>3.50%</b>	<b>\$178,358</b>
2022	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2022	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	26-May-20	360 months	\$ 1,469,681	2.83%	\$ 41,592
2022	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	7-Mar-22	360 months	\$ 2,500,000	3.69%	\$ 68,763
<b>Total 2022</b>							<b>\$ 7,562,950</b>	<b>3.26%</b>	<b>\$246,181</b>
2023	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	3.78%	\$135,826
2023	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	26-May-20	360 months	\$ 1,435,501	2.83%	\$ 40,625
2023	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	7-Mar-22	360 months	\$ 2,465,327	3.69%	\$ 90,971
2023	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	15-Sep-23	360 months	\$ 2,000,000	5.38%	\$ 26,870
<b>Total 2023</b>							<b>\$ 9,494,097</b>	<b>3.10%</b>	<b>\$294,291</b>
2024	Affiliated Debt - from Shareholder	Town of Wasaga Beach	Affiliated	Variable Rate	1-Oct-00	Demand	\$ 3,593,269	4.88%	\$175,352
2024	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	26-May-20	360 months	\$ 1,400,342	2.83%	\$ 39,630
2024	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	7-Mar-22	360 months	\$ 2,417,580	3.69%	\$ 89,209
2024	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	15-Sep-23	360 months	\$ 1,993,253	5.38%	\$107,237
2024	Long Term Loan Arrangement	Infrastructure Ontario	Third-Party	Fixed Rate	1-Jul-24	360 months	\$ 2,000,000	5.38%	\$ 53,800
<b>Total 2024</b>							<b>\$11,404,444</b>	<b>4.08%</b>	<b>\$465,227</b>

2



- 1 WDI proposes a long-term debt cost rate for 2024 of 4.08% as calculated in Appendix 2-OB for 2024
- 2 as displayed in the table above.

1 **2.5.2 Cost of Capital**

2  
 3 This evidence summarizes the capital structure, method, and cost of financing WDI's capital  
 4 requirements for the 2024 test year.

6 **2.5.2.1 Forecasted Capital Structure**

7 The proposed cost rates for cost of capital in 2024 are as previously presented on page 3. The rates  
 8 shown for short-term debt and return on equity are those set out in the Board's letter of October 22,  
 9 2022, Cost of Capital Parameter Updates for 2023 Cost of Service Applications.

10  
 11 The following table gives an overview of the capital structure and cost of capital for the 2016 Board  
 12 Approved and 2024 Test Year.

14 **Table 5.5: Overview of Capital Structure (2016 Board Approved vs. 2024 Test Year)**

Particulars	2016 Deemed Cost of Capital			2024 Deemed Cost of Capital		
	(%)	(%)	(\$)	(%)	(%)	(\$)
Debt						
Long-term Debt	56.00%	3.79%	304,190	56.00%	4.08%	565,311
Short-term Debt	4.00%	1.65%	9,459	4.00%	4.79%	47,414
Total Debt	60.00%	3.65%	313,650	60.00%	4.13%	612,724
Equity						
Common Equity	40.00%	9.19%	526,858	40.00%	9.36%	926,498
Preferred Shares	-	-	-	-	-	-
Total Equity	40.00%	9.19%	526,858	40.00%	9.36%	926,498
Total	100.00%	5.86%	840,508	100.00%	6.22%	1,539,222

15  
 16 WDI is requesting an increase of \$299,074 (\$612,724 versus \$313,650) in total interest from the 2016  
 17 Board Approved amount to the 2024 Test Year amount. The increase is due to a 0.48% increase in the  
 18 interest rate and a \$7.81M increase in debt capacity as a result in the increase in Rate Base.



1 Starting in 2020, WDI has been securing annual CAPEX loans from Infrastructure Ontario (IO), ranging  
2 from \$1.5M to \$2.5M. These funds are allocated to support the growing capital requirements necessary  
3 to serve WDI's expanding customer base. The long-term capital investment strategy involves a 50%  
4 financing component and a corresponding 50% equity contribution.

5  
6 WDI is also requesting an increase of \$399,640 (\$926,498 versus \$526,858) in total return on equity  
7 from the 2016 Board Approved amount to the 2024 Test Year amount. The increase is due to a 0.17%  
8 increase in the return on equity rate and a \$4.17M increase in deemed equity.

9  
10 WDI continues to make investments at a cost significantly higher than the assets it is replacing, as well  
11 as developing underserved areas within the Town of Wasaga Beach. As such, equity increases  
12 significantly from 2016 to 2024.

13  
14 **2.5.2.2 Weighted Average Cost of Debt**

15 WDI proposes a long-term debt cost rate for 2024 of 4.08% which is below the OEB's Deemed Long-  
16 term debt rate of 4.88% as prescribed in the Board's letter of October 20, 2022, Cost of Capital  
17 Parameter Updates for 2023 Cost of Service Applications and current market conditions. The proposed  
18 long-term debt cost rate may put upward pressure on costs during the IRM period needed to support  
19 the investment plans if WDI is unable to secure a date at a rate of less than 4.08%. These additional  
20 costs would be absorbed by the shareholder.

21  
22 **2.5.2.3 Long Term Debt**

23 WDI's long-term debt instruments are summarized below.

- 24
- 25 • Promissory Note: this promissory note to the Town of Wasaga Beach was established as part of  
26 the creation of WDI in 2000. As of December 31, 2023, the principal balance remaining is  
27 \$3,593,269. This is being repaid with annual payments. The 2016-2023 interest rate of 3.78%  
28 was approved in WDI's 2016 COS. It is well below market today's market rates; therefore, for the  
29 purpose of this application, the January 1, 2023, OEB deemed rate of 4.88% will be used. The  
30 Town of Wasaga Beach has indicated that they expect market rates, and current market rates

1 that WDI was able to secure from Ontario Infrastructure and Lands Corporation (IO) as of  
2 September 22, 2023, is 5.38%.

- 3 • Ontario Infrastructure and Lands Corporation Loan: WDI entered into an agreement with IO in  
4 2020 to secure \$13M in available borrowing to support capital growth over the upcoming years.  
5 Interest Rates are set by IO based on current market conditions.
  - 6 ○ 2020: WDI borrowed \$1.5M in 2020 at 2.83% over 30 years. Fixed payments of \$6,277  
7 (principal and interest) are made monthly. The outstanding principal balance as of  
8 December 31, 2023, will be \$1,400,341.
  - 9 ○ 2022: WDI borrowed \$2.5M in 2022 at 3.69% over 30 years. Fixed payments of \$11,493  
10 (principal and interest) are made monthly. The outstanding principal balance as of  
11 December 31, 2023, will be \$2,417,579.
  - 12 ○ 2023: WDI borrowed \$2M September 22, 2023, at 5.38% over 30 years. This is also a fixed  
13 payment loan, paid monthly, of \$11,205. Principal balance as of December 31, 2023, will  
14 be \$1,993,253.
  - 15 ○ 2024: current cash flow forecasts indicate that WDI will require an additional \$2M in 2024  
16 to support its capital program. 5.38%, the current rate being offered by IO, was used to  
17 calculate this forecast.

#### 18 19 **2.5.2.4 Short Term Debt**

20 WDI has used a short-term debt rate of 4.79% for the 2024 Test Year as established by the Board for  
21 2023 COS applications. WDI recognizes that the short-term debt rate will be updated at a later date  
22 consistent with the OEB's guidelines.

23  
24 WDI's short-term debt instruments are summarised below:

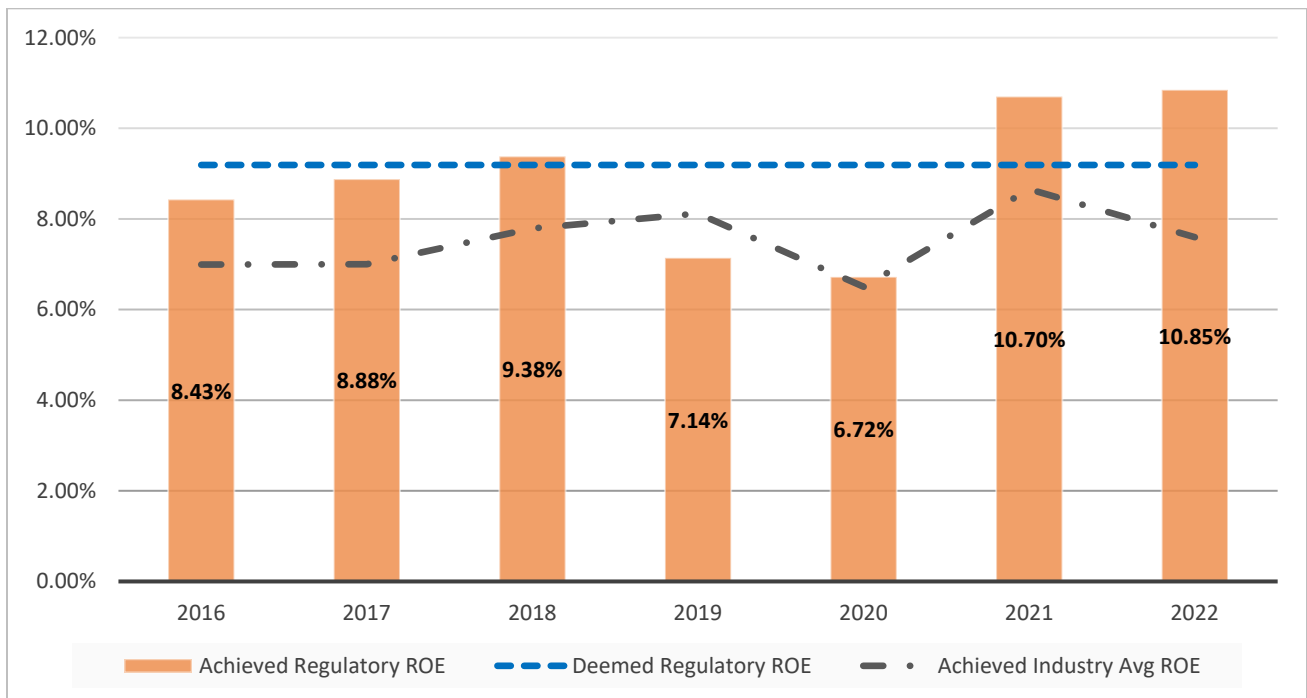
- 25  
26 • Line of Credit: WDI has an allowed Line of Credit with WRSI from a Canadian bank in the  
27 amount of \$1.5M.
- 28 • Letter of Credit: WDI has obtained a Letter of Credit from a Canadian bank in the amount of  
29 \$785,604 that has been issued in favour of the Independent Electricity System Operator (IESO).  
30 This Letter of Credit financially secures the Corporation's electricity purchases from the IESO,  
31 who has not drawn on this credit instrument.

1 WDI is aware that the IESO may review its prudential requirements and undertakes to update this  
 2 evidence at a later date, if needed, for any changes in these requirements authorised by the IESO.  
 3 WDI does not forecast that it will redeem any debt and has not issued any preference shares; hence,  
 4 WDI does not record either a profit or a loss on redemption of debt and/or preference shares.

5  
 6 **2.5.2.5 Return on Equity**

7 WDI has proposed an ROE of 9.36% for the 2024 Test Year as established by the Board for the 2024  
 8 COS Applications with a May 1, 2024, implementation date. WDI recognises that the ROE will be  
 9 updated in accordance with Board guidelines and as such commits to updating the cost of capital  
 10 parameters as new information is made available. WDI's achieved historic ROE can be found in Figure  
 11 5.1 below.

12  
 13 **Figure 5.1: WDI's Historical Return on Equity**



14  
 15



1 **2.5.2.6 Notional Debt**

2 Notional debt is the portion of deemed debt that results from differences between WDI's actual debt  
3 and deemed debt of 60% of the rate base (56% long-term debt and 4% short-term debt). Notional debt  
4 can arise from a number of reasons such as the difference between actual capital assets and regulatory  
5 rate base due to the addition of formulaic working capital allowance. Disparity from deemed capital  
6 structure is generally under the control of WDI as it may relate to the timing for debt financing for  
7 planned investments and the shareholder interest to reinvest retained earnings.



1 **2.5.3 Not-for-Profit**

2  
3 WDI is incorporated under the Ontario Business Corporation Act. All requirements related to a not-for-  
4 profit organization do not apply.



- 1 **2.5.4 Appendices**
- 2 Appendix 5 (A) Promissory Note with the Town of Wasaga Beach



1 **Appendix 5 (A) Promissory Note with the Town of Wasaga Beach**

## PROMISSORY NOTE

**Principal Amount: \$3,593,269**

### 1. Effective date

This promissory note shall have no effect by way of interest or principal until ratified by **WASAGA DISTRIBUTION INC.** (the "Corporation").

### 2. Promise to Pay

**FOR VALUE RECEIVED** the Corporation acknowledges itself indebted and hereby promises to pay The Corporation of the Town of Wasaga Beach or its successor or assignee (the "Town") at its offices at 30 Lewis Street, Wasaga Beach, Ontario (or at such other place as the Town may direct the Corporation in writing) the principal sum of **\$3,593,269** in lawful money of Canada, together with interest thereon as hereinafter provided.

### 3. Interest

Interest shall be payable on the principal amount outstanding on the 30th day following December 31st of each year in which principal is owing under this promissory note. The interest rate payable in any given year shall be the Government of Canada 10 year bond rate posted by the Bank of Canada on December 31st of each year. At the option of the Corporation, interest under this Promissory Note may be payable in cash or, in lieu thereof, in additional common shares in the capital of the Corporation.

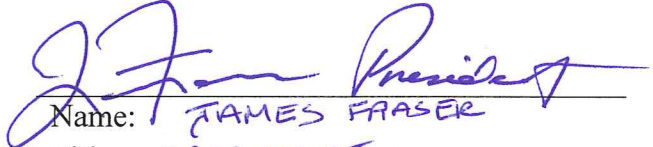
### 4. Principal Payments

The Corporation shall have the option of prepaying the principal amount hereof at any time, in whole or in part, without notice or bonus and further shall have the option to redeem any shares issued under this note at the value at the date of issue.

DATED at Wasaga Beach, this 30<sup>TH</sup> day of MAY, 2016, with effect as of the 30<sup>th</sup> day of October, 2000

WASAGA DISTRIBUTION INC.

Per:

  
Name: JAMES FRASER

Title: PRESIDENT

I have authority to bind the corporation.



## AMENDED AND RESTATED PROMISSORY NOTE

**Principal Amount: \$3,593,269**

### 1. Amendment and Restatement

This promissory note amends and restates a Promissory Note (the "**Predecessor Note**") issued by Wasaga Distribution Corporation to The Corporation of the Town of Wasaga Beach (the "**Town**") with effect as of October 30<sup>th</sup>, 2000 for the Principal Amount. The Predecessor Note was issued pursuant to By-law No. 2000-64 of the Town.

This promissory note amends the terms of repayment of, and does not extinguish, the debt created pursuant to the transfer by-law (enacted pursuant to the authority granted under the *Electricity Act, 1998*) as set forth in By-Law No. 2000-64 of the Town, and the Predecessor Note.

### 2. Promise to Pay

**FOR VALUE RECEIVED** the Corporation acknowledges itself indebted and hereby promises to pay The Corporation of the Town of Wasaga Beach or its successor or assignee at its offices at 30 Lewis Street, Wasaga Beach, Ontario (or at such other place as the Town may direct the Corporation in writing) the principal sum of **\$3,593,269** in lawful money of Canada, together with interest thereon as hereinafter provided.

### 3. Interest

Interest on the Principal Amount shall be calculated annually, not in advance, and payable to the Town on the 30<sup>th</sup> day following December 31<sup>st</sup> of each year in which principal is owing under this promissory note. The annual interest rate payable in any given year will be equal to any interest rate deemed or approved by the Ontario Energy Board ("**Board**") in connection with the then current decision and order issued by the Board approving the electricity distribution rates that the Corporation is permitted to recover. At the option of the Corporation, interest under this promissory note may be payable in cash or, in lieu thereof, in additional common shares in the capital of the Corporation.

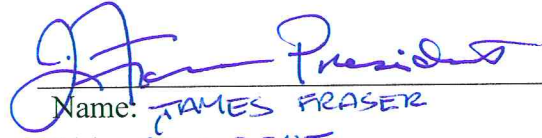
### 4. Principal Payments

The Corporation shall have the option of prepaying the Principal Amount hereof at any time, in whole or in part, without notice or bonus and further shall have the option to redeem any shares issued under this note at the value at the date of such issue.

DATED at Wasaga Beach, this 30<sup>TH</sup> day of MAY, 2016, with effect as of the 30<sup>TH</sup> day of MAY, 2016

WASAGA DISTRIBUTION INC.

Per:



Name: JAMES FRASER

Title: PRESIDENT

I have authority to bind the corporation.