

EXHIBIT 5
COST OF CAPITAL
AND
CAPITAL STRUCTURE
EB-2017-0073

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1 **Exhibit 5: Cost of Capital and Capital Structure**

2

3 The purpose of this evidence is to summarize the method and cost of financing capital requirements
 4 for the 2018 Test Year.

5 **5.1 Capital Structure**

6 SLHI has a current deemed capital structure and cost of capital of 56% long term debt with a return
 7 of 3.33%, 4% short term debt with a return of 2.07% and 40% equity with a return of 8.98% as
 8 approved in the 2013 cost of service (“COS”) rate decision EB-2012-0165. See below for OEB
 9 Appendix 2-OA for the 2013 Board Approved Capital Structure.

10 **Table 5-1: 2013 Board Approved Capital Structure and Cost of Capital**
Appendix 2-OA
Capital Structure and Cost of Capital

This table must be completed for the last Board-approved year and the test year.

Year: 2013

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$3,423,960	3.44%	\$117,784
2	Short-term Debt	4.00%	\$244,569	2.07%	\$5,063
3	Total Debt	60.0%	\$3,668,529	3.35%	\$122,847
	Equity				
4	Common Equity	40.00%	\$2,445,686	8.98%	\$219,623
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$2,445,686	8.98%	\$219,623
7	Total	100.0%	\$6,114,215	5.60%	\$342,469

Notes

(1)

4.0% unless an applicant has proposed or been approved for a different amount.

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1 SLHI has prepared this 2018 COS Application in accordance with the Board’s guidelines provided in
2 the *Report of the Board on Cost of Capital for Ontario’s Regulated Utilities* issued on December 11,
3 2009. For the purposes of preparing this Application, SLHI has used the cost of capital parameters
4 issued by the Board on October 27, 2016, for 2017 cost of service rate applications for rates with
5 effective dates in May 2017. SLHI understands that the OEB will be updating the ROE for 2018 Cost
6 of Service Applications, and therefore commits to updating its Application to reflect the OEB’s
7 updated Cost of Capital Parameters for May 1, 2018 applications at a later date as SLHI is in the
8 final review stages. See below for OEB Appendix 2-OA for the proposed 2018 Test Year Capital
9 Structure.

Table 5-2: 2018 Test Year Capital Structure and Cost of Capital

		Year: 2018			
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$3,455,816	3.86%	\$133,394
2	Short-term Debt	4.00%	\$246,844	1.76%	\$4,344
3	Total Debt	60.0%	\$3,702,660	3.72%	\$137,739
Equity					
4	Common Equity	40.00%	\$2,468,440	8.78%	\$216,729
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$2,468,440	8.78%	\$216,729
7	Total	100.0%	\$6,171,100	5.74%	\$354,468

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1 **5.2 Cost of Capital (Return on Equity and Cost of Debt)**

2 *Return on Equity*

3 As outlined above, for the purposes of preparing this Application SLHI has used the cost of capital
4 parameters issued by the Board on October 27, 2016 for 2017 COS rate applications which reflects
5 a return on equity of 8.78%. SLHI will update the return on equity to reflect the Board issued cost of
6 capital parameters at a later date for SLHI's May 1, 2018 application. At the current rate and applied
7 to 40% of the proposed rate base of \$6,171,100 the return on equity is \$216,729.

8 *Cost of Debt: Long Term*

9 SLHI is requesting a return on long term debt for the 2018 Test Year of 3.86%. This rate of return
10 represents the weighted average cost of long term debt for SLHI's actual and predicted long term
11 debt. The amount included in the revenue requirement to be collected from SLHI customers is
12 \$133,395, which is the cost rate of 3.86% applied to 56% of the proposed rate. See Table 5-3 below
13 for the determination of the cost of long term debt taken from OEB Appendix 2-OB. The debt
14 included in the 2017 debt instruments is actual debt. The 2018 debt includes an estimated amount
15 for the Line Truck Financing based on a quote received on July 25, 2017 from Key Equipment
16 Financing.

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1 **Table 5-3: Appendix 2-OB - Historical, Bridge and 2018 Test Year Debt Instruments**

**Appendix 2-OB
 Debt Instruments**

This table must be completed for all required historical years, the bridge year and the test year.

Year 2013

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Jun-07	6.75	\$ 1,758,989	0.03	\$ 43,974.73	Non-revolving Demand Instalment Loan - Fixed Principle plus interest payments
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 1,588,490	0.0283	\$ 7,492.38	Converted Loan to Principle and interest blended Monthly payment. Interest rate fixed until July 3, 2019
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 622,319	0.047	\$ 29,248.97	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4								\$ -		
5								\$ -		
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 3,969,798	0.0203325	\$ 80,716.08	

Notes

- 1 If financing is in place only part of the year, separately calculate the pro-rated interest in the year and input in the cell.
- 2 Input actual or deemed long-term debt rate in accordance with the guidelines in *The Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009, or with any subsequent update issued by the Board.
- 3 Add more lines above row 12 if necessary.

Year 2014

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1										
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 1,574,029	0.0283	\$ 44,545.01	Principle and interest blended monthly payment. Interest rate fixed until Nov 1, 2017
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 580,910	0.047	\$ 27,302.78	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4								\$ -		
5								\$ -		
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 2,154,939	0.03341	\$ 71,847.78	

Year 2015

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1										
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 1,405,926	0.0283	\$ 39,787.72	Principle and interest blended monthly payment. Interest rate fixed until Nov 1, 2017
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 537,513	0.047	\$ 25,263.11	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4								\$ -		
5								\$ -		
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 1,943,440	0.033472	\$ 65,050.83	

Year 2016

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1										
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 1,233,045	0.0283	\$ 34,895.17	Principle and interest blended monthly payment. Interest rate fixed until Nov 1, 2017
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 492,032	0.047	\$ 23,125.50	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4								\$ -		
5								\$ -		
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 1,725,077	0.0336337	\$ 58,020.67	

Year 2017

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1										
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 1,040,802	0.0283	\$ 29,454.69	Principle and interest blended monthly payment. Interest rate fixed until Nov 1, 2017
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 440,292	0.047	\$ 20,693.74	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4	Long Term Load Transfer Elimination - Purchase of Hydro One Assets	CIBC	Third-Party	Variable Rate	1-Jul-17	10	\$ 147,842	0.027	\$ 2,328.51	Non-revolving demand loan, set principle plus interest of Prime
5								\$ -		
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 1,628,936	0.0322155	\$ 52,476.94	

Year 2018

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1										
2	CIBC Bank Loan (1)	CIBC	Third-Party	Fixed Rate	1-Nov-13	4	\$ 857,412	0.0283	\$ 24,264.76	Principle and interest blended monthly payment. Interest rate fixed until Nov 1, 2017
3	CIBC Smart Meter Loan	CIBC	Third-Party	Fixed Rate	3-Jul-09	15	\$ 390,142	0.047	\$ 18,336.67	Principle and interest blended monthly payment. Interest rate fixed until July 3, 2019
4	Long Term Load Transfer Elimination - Purchase of Hydro One Assets	CIBC	Third-Party	Variable Rate	1-Jul-17	10	\$ 136,754	0.027	\$ 3,692.36	Non-revolving demand loan, set principle plus interest of Prime
5	Line Truck Financing	Key Equipment Financing	Third-Party	Fixed Rate	1-Jan-18	6	\$ 345,788	0.059	\$ 20,401.49	Financing required for the purchase of line truck
6								\$ -		
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 1,730,096	0.03855	\$ 66,695.28	

1 *Cost of Debt: Short Term*

2 For the purposes of preparing this Application, SLHI has used the cost of capital parameters issued
3 by the Board on October 27, 2016 for 2017 COS rate applications which reflect a deemed short term
4 debt rate of 1.76%. SLHI will update the deemed short term debt rate to reflect the Board issued
5 cost of capital parameters at a later date for SLHI's May 1, 2018 application and prior to the
6 issuance of the Board's decision for its Application. At the current rate and applied to 4% of the
7 proposed rate base of \$6,171,100 the cost of short term debt is \$4,344.

8 *Total Cost of Capital*

9 SLHI has included a total of \$354,468 in its proposed revenue requirement, which is the total of the Return on
10 equity, the cost of long term debt and the cost of short term debt calculated on the proposed rate base of
11 \$6,171,100 which is explained in detail in Exhibit 2.

12 *Profit or Loss on Redemption of Debt or Preferred Shares*

13 There is no profit or loss on redemption of debt or preferred shares.

14 *Notional Debt*

15 Notional debt is that portion of the deemed debt capitalization that results from differences
16 between the distributor's actual debt and the deemed debt thickness of 60% (56% long-term debt
17 and 4% short-term debt). SLHI has about \$1.7 million in notional debt in the test year (i.e. deemed
18 debt portion of rate base of \$3.4 million minus actual debt of \$1.7 million). SLHI understands the
19 notional debt should attract the weighted average cost of actual long-term debt on the \$1.7 million.

20 **5.3 Not-For-Profit Corporations**

21 SLHI is a for-profit corporation. As a result, the filing requirements associated with not-for-profit
22 corporations are not applicable.