



Northern Ontario Wires Inc.
Filed: August 30, 2024
EB-2024-0046
Exhibit 5

Exhibit 5:

COST OF CAPITAL AND CAPITAL STRUCTURE

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Tab 1

Exhibit 5: Cost Of Capital And Capital Structure

Tab 1 (of 2): Cost of Capital and Capital Structure



1 **COST OF CAPITAL AND CAPITAL STRUCTURE**

2 **OVERVIEW**

3 NOW Inc. has followed the *Report of the Board on the Cost of Capital for Ontario's*
4 *Regulated Utilities* dated December 11, 2009, to determine its capital structure and
5 relied on the Board's October 31, 2024 *Cost of Capital Parameter Updates for 2024*
6 *Applications* letter for the cost of capital parameters. NOW Inc. will update the cost of
7 capital parameters when new parameters are made available and prior to the Board's
8 decision on NOW Inc.'s 2024 distribution rates. NOW Inc. is not proposing any deviation
9 from the Board's cost of capital methodology.

10

11 Overall, NOW Inc. is requesting a deemed interest expense of \$272,533 and a deemed
12 return on equity of \$416,223 for a total regulated return on capital of \$688,757 for the
13 2025TY. The return on capital of \$688,757 is \$248,373 higher than the 2017 Board
14 Approved amount, primarily due to an increase in rate base. The derivation of the
15 2025TY regulated return on capital is provided in E5/T1/S1/Att1, which is OEB Chapter 2
16 Appendix 2-OA.

17

18 **CAPITAL STRUCTURE**

19 For the purpose of setting distribution rates for the 2025TY, NOW Inc. adheres to Board
20 policy where it has been determined that a capital structure of 60% debt and 40% equity
21 is appropriate for electricity distributors. Debt is comprised of 56% long-term debt and
22 4% short-term debt.

23

24 Board Appendices 2-OA and 2-OB provide further details on NOW Inc.'s capital
25 structure and debt instruments and these are provided in E5/T1/S1/Att1 and
26 E5/T1/S1/Att2, respectively.

27

28 The average rate base in the 2025 TY is \$11,298,137. The portion to be financed by
29 long term debt is \$6,326,957 (56%), the portion financed by short term debt is \$451,925
30 (4%) and the portion financed through equity is \$4,519,255 (40%),



1

2 **RETURN ON EQUITY**

3 ***Common Equity***

4 NOW Inc. adheres to the Board's Cost of Capital policy. For rate making purposes,
5 NOW Inc. proposes to recover an amount of \$416,223 for the Return on Equity through
6 distribution rates in the 2025TY. This amount is determined based on the Board's
7 specified of return on equity of 9.21% multiplied by 40% of the average rate base in the
8 2025TY. The return on equity will be updated to reflect the most current OEB approved
9 ROE rate when the draft rate order for this proceeding is prepared.

10

11 **DEBT**

12 ***Long-Term Debt***

13 For the 2025TY, NOW Inc. has followed the Board's cost of capital direction and has
14 calculated the cost of debt using actual and expected rates from third-party debt.

15

16 For the 2025TY, the long-term debt amount is 56% of the calculated average Rate Base
17 to which the average long-term debt rate of 3.86% is applied. Based on this approach,
18 NOW Inc. proposes recovering interest costs of \$244,378 (E5/T1/S1/Att1), for the long-
19 term debt component for the 2025TY.

20

21 NOW Inc. has outstanding third party debt with Caisse Desjardins Ontario Credit Union
22 Inc. ("Desjardins"). This debt consists of five specific loans (E5/T1/S1/Att2.) The largest
23 loan has a 2025 principal amount of \$2,938,969, a rate of 2.99%, renewable in 20 and
24 matures in 2038. In 2022 a further 20-year loan was secured with Desjardins at a rate of
25 3.15% and the 2025 principal amount of this loan is \$625,720. These two loans help to
26 reduce the overall long term debt rate. Three other loans were secured in 2024 with
27 interest rates between 4.85% and 5.25%.

28

29 NOW Inc. plans to secure additional financing in the amount of \$800,000 in December
30 2024. This financing is expected to be at a rate of 4.85% (as quoted by Desjardins) and
31 will be for a 20-year term. The proceeds of this loan will be used to fund 2025 capital
32 expenditures.



1 **Short-Term Debt**

2 For rate making purposes, NOW Inc. proposes to recover \$28,157 (E5/T1/S1/Att1)
3 through distribution rates in the 2025TY for deemed short-term debt. The short-term debt
4 amount is derived by applying the Board's cost of capital direction in which short-term
5 debt represents 4% of the capital structure at a rate of 6.23%. To determine the short-
6 term debt cost, 4% of the average rate base for the 2025TY is multiplied by the short-
7 term debt rate of 6.23%. The short-term debt will be updated to reflect the OEB's most
8 current rate when the draft rate order for this proceeding is prepared.

9

10 **Changes in Debt Since 2017:**

11

12 In 2017 there was a \$3,678,985 long term loan with a 20-year maturity and a 5-year
13 renewable term at a rate of 3.75%. There were also two smaller loans in the amounts of
14 \$157,566 and \$127,536 that had 5-year terms.

15

16 In August 2018, the large loan was renewed in the amount of \$3,910,715 at a rate of
17 3.58% and one of the smaller loans was paid off.

18

19 In May 2019 the remaining small loan was paid off. At year end 2019 and during 2020
20 and 2021 only the large loan was outstanding. This loan was renewed for a 5-year term
21 at a rate of 2.99% in December 2021.

22

23 In 2022 an additional loan in the amount of \$700,000 (20-year term, 5-year renewal) was
24 arranged at a rate of 3.15%. These loans remained outstanding during 2023.

25

26 In January 2024, further funding was required and two loans (with 5 and 20-year terms
27 respectively) were arranged, both at a rate of 5.25%. In August 2024 a loan (20-year
28 term, 5-year renewal) was arranged with Desjardins at a rate of 4.85%. A further
29 \$800,000 is planned to be borrowed in December 2024 at a rate of 4.85%.

30

31

32



1

2 **Notional Debt**

3 Notional debt of \$586,353 is calculated as the difference between the deemed short and
4 long-term debt rate of 60% and NOW Inc.'s 2025 debt which is shown in **Table 1** as
5 follows:

6

7

8

Table 1
Notional Debt

Rate Base	Deemed Debt Rate	Deemed Debt	Actual Long-term Debt 2025	Notional Debt
\$11,298,137	60.0%	\$6,778,882	\$6,193,047	\$585,835

9

10

11 **REGULATED RETURN ON EQUITY**

12

13

14

Table 2
Regulated ROE

	OEB Appr.	Actual Regulated ROE						
	2017	2017	2018	2019	2020	2021	2022	2023
ROE %	8.78%	6.24%	9.97%	10.92%	8.99%	10.48%	9.06%	4.44%

15

16 As can be seen in Table 2 above, NOW Inc. 2023 ROE of 4.44% is more than 300 basis
17 points below the earnings deadband of 5.78%. It is expected that this lower ROE will
18 continue absent an adjustment to distribution rates in 2025.



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OEB Appendix 2-OA

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Appendix 2-OA Capital Structure and Cost of Capital

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

Test Year: 2025

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$6,326,957	3.86%	\$244,378
2	Short-term Debt	4.00% (1)	\$451,925	6.23%	\$28,155
3	Total Debt	60.0%	\$6,778,882	4.02%	\$272,533
	Equity				
4	Common Equity	40.00%	\$4,519,255	9.21%	\$416,223
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$4,519,255	9.21%	\$416,223
7	Total	100.0%	\$11,298,137	6.10%	\$688,757

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.

Last OEB-approved year: 2017

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$4,349,864	3.73%	\$162,117
2	Short-term Debt	4.00% (1)	\$310,705	1.76%	\$5,468
3	Total Debt	60.0%	\$4,660,569	3.60%	\$167,585
	Equity				
4	Common Equity	40.00%	\$3,107,046	8.78%	\$272,799
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$3,107,046	8.78%	\$272,799
7	Total	100.0%	\$7,767,615	5.67%	\$440,384

Notes

(1) 4.0% unless an applicant has proposed or been approved for a different amount.



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OEB Appendix 2-OB

**Appendix 2-OB
Debt Instruments**

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 OEB.
- 3 Add more lines above row 12 if necessary.

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 Ln1		Desjardins	Third-Party	Fixed Rate	19-Sep-13	5	\$ 157,566	3.75%	\$ 5,908.72	
2 Ln4		Desjardins	Third-Party	Fixed Rate	28-Apr-14	5	\$ 127,536	3.42%	\$ 4,361.74	
3 Ln8		Desjardins	Third-Party	Fixed Rate	27-Jul-12	20	\$ 3,678,985	3.75%	\$ 137,961.94	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,964,087	3.74%	\$ 148,232.39	

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 Ln1		Desjardins	Third-Party	Fixed Rate	19-Sep-13	5	\$ 68,806	3.75%	\$ 2,085.38	Paid off Oct 22, 2018
2 Ln4		Desjardins	Third-Party	Fixed Rate	28-Apr-14	5	\$ 74,120	3.42%	\$ 2,534.69	
3 Ln8		Desjardins	Third-Party	Fixed Rate	27-Jul-12	20	\$ 3,516,836	3.75%	\$ 77,322.23	Closed loan Aug 2, 2018
4 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,910,715	3.58%	\$ 57,919.30	Opened loan Aug 2, 2018
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,809,513	3.67%	\$ 139,861.80	Principal is the average annual amount outstanding

Year 2019

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 Ln4		Desjardins	Third-Party	Fixed Rate	28-Apr-14	5	\$ 18,850	3.42%	\$ 215.48	Paid off May 27, 2019
2 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,865,914	3.58%	\$ 138,399.72	
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,872,215	3.58%	\$ 138,615.20	Principal is the average annual amount outstanding

Year 2020

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,727,864	3.58%	\$ 133,457.53	
2									\$ -	
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,727,864	3.58%	\$ 133,457.53	

Year 2021

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,585,167	3.58%	\$ 118,151.39	
2 Ln7		Desjardins	Third-Party	Fixed Rate	2-Dec-21	20	\$ 3,436,907	2.99%	\$ 8,164.77	Term Renewed Dec 2, 2021 at 2.99%
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,573,387	3.53%	\$ 126,316.16	Principal is the average annual amount outstanding

Year 2022

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,436,907	2.99%	\$ 102,763.52	
2 Ln1		Desjardins	Third-Party	Fixed Rate	25-Feb-22	20	\$ 700,000	3.15%	\$ 16,854.66	Pro-rated
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,971,976	3.01%	\$ 119,618.18	Principal is the average annual amount outstanding

Year 2023

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,275,366	2.99%	\$ 97,933.46	
2 Ln1		Desjardins	Third-Party	Fixed Rate	25-Feb-22	20	\$ 678,702	3.15%	\$ 21,379.12	
3									\$ -	
4									\$ -	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,954,068	3.02%	\$ 119,312.58	

Year 2024

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 3,108,929	2.99%	\$ 92,956.98	
2 Ln1		Desjardins	Third-Party	Fixed Rate	25-Feb-22	20	\$ 652,484	3.15%	\$ 20,553.26	
3 Ln4		Desjardins	Third-Party	Fixed Rate	9-Jan-24	5	\$ 246,773	5.25%	\$ 12,955.58	
4 Ln8		Desjardins	Third-Party	Fixed Rate	9-Jan-24	20	\$ 853,227	5.25%	\$ 44,794.42	
5 Ln9		Desjardins	Third-Party	Fixed Rate	1-Aug-24	20	\$ 800,000	4.85%	\$ 16,264.11	Pro-rated
6 Ln10		Desjardins	Third-Party	Fixed Rate	10-Dec-24	20	\$ 800,000	4.85%	\$ 2,126.03	Pro-rated
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 5,240,592	3.62%	\$ 189,650.38	Principal is the average annual amount outstanding

Year 2025

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 Ln7		Desjardins	Third-Party	Fixed Rate	2-Aug-18	20	\$ 2,938,969	2.99%	\$ 87,875.17	
2 Ln1		Desjardins	Third-Party	Fixed Rate	25-Feb-22	20	\$ 625,720	3.15%	\$ 19,710.18	
3 Ln4		Desjardins	Third-Party	Fixed Rate	9-Jan-24	5	\$ 206,653	5.25%	\$ 10,849.28	
4 Ln8		Desjardins	Third-Party	Fixed Rate	9-Jan-24	20	\$ 829,705	5.25%	\$ 43,559.51	
5 Ln9		Desjardins	Third-Party	Fixed Rate	1-Aug-24	20	\$ 792,000	4.85%	\$ 38,412.00	
6 Ln10		Desjardins	Third-Party	Fixed Rate	10-Dec-24	20	\$ 800,000	4.85%	\$ 38,800.00	
7								\$ -		
8								\$ -		
9								\$ -		
10								\$ -		
11								\$ -		
12								\$ -		
Total							\$ 6,193,047	3.86%	\$ 239,206.15	



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Exhibit 5: Cost Of Capital And Capital Structure

Tab 2 (of 2): Not-for-Profit Corporations



1

DECLARATION OF FOR-PROFIT STATUS

2

NOW Inc. is a for profit corporation. Accordingly, a reserve requirement is not applicable.

3