

# **Exhibit 5**

## **Cost of Capital and Capital Structure**

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1 **1.0 COST OF CAPITAL AND CAPITAL STRUCTURE**

2 **1.1 OVERVIEW**

3 The purpose of this exhibit is to summarize the method and cost of financing capital requirements  
4 for the 2022 Test Year.

5 E.L.K. has a deemed capital structure consistent with that approved by the OEB in the *“Report of*  
6 *the OEB on the Cost of Capital for Ontario’s Regulated Utilities”* issued December 11, 2009. This  
7 capital structure is 56% long-term debt, 4% short-term debt and 40% equity.

8 In this application, where appropriate, E.L.K. has used the most recent cost of capital parameters  
9 issued by the Board on October 28, 2021. These are:

- 10 - Long-Term Debt: 3.49% (for Affiliated Debt)
- 11 - Short-Term Debt: 1.17%, and
- 12 - Return on Equity: 8.66%

13 E.L.K. does not have affiliated debt. For the cost of Long-Term Debt, E.L.K. has used a blended  
14 rate of 2.83% which represents the weighted average of third-party debt at rate of 1.36% and  
15 notional debt at the OEB approved Long Term Debt rate.

16 E.L.K. confirms that that the cost of capital parameters currently used in this application will be  
17 updated as necessary to reflect those approved by the OEB at the time of their Decision regarding  
18 this proceeding.

19 **1.2 RETURN ON EQUITY**

20 As outlined above, in this application E.L.K. has used the cost of capital parameters issued by the  
21 Board on October 28, 2021 for 2022 COS rate applications which specifies a return on equity of  
22 8.66%.

23 **1.3 COST OF DEBT: LONG TERM**

24 E.L.K. is requesting recovery of the cost of Long Term Debt for the 2022 Test Year at an average  
25 rate of rate 2.83%. This rate represents the weighted average of a forecast interest rate on a Term

1 Loan with the CIBC in the amount of \$2,400,000 at a rate of 1.36%, and Notional Debt of  
 2 \$5,339,732 at the OEB Long Term Debt rate of 3.49%.

3 The current Term Loan with the CIBC is due to mature on July 2, 2022. Given current upward  
 4 pressure on interest rates, it is expected that this Loan will be required to be financed at a rate  
 5 higher than the current 2021 rate of 1.073% (documentation of the 1.073% loan is provided in  
 6 Exhibit 5, Tab 1, Attachment 1). E.L.K. intends to replace the matured 1-year Term Loan with a  
 7 4-year term loan at the prevailing interest rate as of July 3, 2022. This rate is currently uncertain  
 8 and E.L.K. has used a placeholder rate of 1.36%, pending update at the interrogatory stage of  
 9 this proceeding.

10 With respect to financing Notional Debt, E.L.K. acknowledges that using the OEB Long Term debt  
 11 rate is a departure from the usual practice of Notional Debt being funded at the weighted average  
 12 cost of outstanding Long Term Debt. The reason for this departure is that current practice would  
 13 require Notional Debt to be funded at 1.36% which will cause E.L.K. to be “locked” in to a low  
 14 interest rate in advance of the time that Notional Debt (or part thereof) could be funded through  
 15 actual borrowing. This will cause E.L.K. to under recover actual interest costs for up to a 5-year  
 16 period, thereby impacting the financial ongoing financial viability of the utility.

**Table 5-1**

Long-Term Debt	Deemed LT Debt	Weighting	Deemed Rate	Weighted Rate
CIBC Loan	\$2,400,000	31.0%	1.36%	0.4217%
Notional Debt	\$5,339,732	69.0%	3.49%	2.4078%
<b>Total Deemed LT Debt</b>	<b>\$7,739,732</b>	<b>100.0%</b>		
Weighted-Average LT Debt Rate				2.8295%

18  
 19 **1.4 COST OF DEBT: SHORT TERM**

20 In this application, E.L.K. has used the cost of capital parameters issued by the Board on October  
 21 28, 2021 for 2022 COS rate applications which specifies a deemed short term debt rate of 1.17%.

1 Below is Chapter 2 Appendix 2-OA that provides the elements of the capital structure and cost of  
 2 capital for the 2012 Board-approved amounts and the 2022 Test Year. In 2022, the weighted  
 3 average cost of capital is 5.10%. This rate, applied to the rate base of \$13,820,951, results in a  
 4 return on rate base of \$704,223. Exhibit 2, Tab 1 provides the supporting information in the  
 5 calculation of rate base.

6 It is noted that E.L.K.'s 5.10% weighted average cost of capital is less than the 5.47% weighted  
 7 average cost of capital as derived from the OEB 2022 Cost of Capital Parameters letter dated  
 8 October 28, 2021.

9

**Table 5-2**

<b>Appendix 2-OA</b>					
<b>Capital Structure and Cost of Capital</b>					
This table must be completed for the last OEB-approved year and the test year.					
Last OEB-approved year : <span style="background-color: #d9ead3;">2012</span>					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$7,025,249	2.71%	\$190,384
2	Short-term Debt	4.00%	\$501,804	2.08%	\$10,438
3	<b>Total Debt</b>	60.0%	\$7,527,053	2.67%	\$200,822
	<b>Equity</b>				
4	Common Equity	40.00%	\$5,018,035	9.12%	\$457,645
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	<b>Total Equity</b>	40.0%	\$5,018,035	9.12%	\$457,645
7	<b>Total</b>	100.0%	\$12,545,088	5.25%	\$658,467

10

Test Year: 2022

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return	
		(%)	(\$)	(%)	(\$)	
	<b>Debt</b>					
1	Long-term Debt	56.00%	\$7,739,732	2.83%	\$218,997	
2	Short-term Debt	4.00% (1)	\$552,838	1.17%	\$6,468	
3	<b>Total Debt</b>	<b>60.0%</b>	<b>\$8,292,570</b>	<b>2.72%</b>	<b>\$225,465</b>	
	<b>Equity</b>					
4	Common Equity	40.00%	\$5,528,380	8.66%	\$478,758	
5	Preferred Shares	0.00% ( )	\$ -	0.00%	\$ -	
6	<b>Total Equity</b>	<b>40.0%</b>	<b>\$5,528,380</b>	<b>8.66%</b>	<b>\$478,758</b>	
1	7	<b>Total</b>	<b>100.0%</b>	<b>\$13,820,951</b>	<b>5.10%</b>	<b>\$704,223</b>

## 2 1.5 LONG-TERM DEBT INSTRUMENTS

3 Outlined below is OEB Appendix 2-OB listing E.L.K.'s long-term debt instruments and cost of  
4 long-term debt from 2016 to the 2022 test year.

1

**Table 5-3**

**Appendix 2-OB  
 Debt Instruments**

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

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-15	1	\$ 4,600,000	0.0163	\$ 74,980.00	
2									\$ -	
Total							\$ 4,600,000	1.63%	\$ 74,980.00	

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

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	TD Term Loan	TD Bank	Third-Party	Fixed Rate	30-Jun-16	1	\$ 4,100,000	0.02	\$ 82,000.00	
2									\$ -	
Total							\$ 4,100,000	2.00%	\$ 82,000.00	

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

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	CIBC Term Loan	CIBC Bank	Third-Party	Fixed Rate	30-Jun-17	1	\$ 3,600,000	0.0266	\$ 95,760.00	
2									\$ -	
Total							\$ 3,600,000	2.66%	\$ 95,760.00	

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

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	CIBC Term Loan	CIBC Bank	Third-Party	Fixed Rate	30-Jun-18	1	\$ 3,100,000	0.0248	\$ 76,880.00	
2									\$ -	
Total							\$ 3,100,000	2.48%	\$ 76,880.00	

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.

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Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	CIBC Term Loan	CIBC Bank	Third-Party	Fixed Rate	30-Jun-19	1	\$ 2,600,000	0.0136	\$ 35,360.00	
2									\$ -	
Total							\$ 2,600,000	1.36%	\$ 35,360.00	

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
- 3 Add more lines above row 12 if necessary.

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	CIBC Term Loan	CIBC Bank	Third-Party	Fixed Rate	30-Jun-20	1	\$ 2,400,000	0.01073	\$ 25,752.00	
2									\$ -	
Total							\$ 2,400,000	1.07%	\$ 25,752.00	

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
- 3 Add more lines above row 12 if necessary.

Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) <sup>2</sup>	Interest (\$) <sup>1</sup>	Additional Comments, if any
1	CIBC Term Loan	CIBC Bank	Third-Party	Fixed Rate	30-Jun-21	1	\$ 2,400,000	0.0136	\$ 32,640.00	
2									\$ -	
3									\$ -	
Total							\$ 2,400,000	1.36%	\$ 32,640.00	

1

2 **1.6 PROFIT OR LOSS ON REDEMPTION OF DEBT OR PREFERRED SHARES**

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

4 **1.7 NOTIONAL DEBT**

5 Notional debt is that portion of debt that results from the difference between the distributor's actual  
 6 long-term debt and the deemed long-term debt as derived from the calculation of regulatory rate  
 7 base.

8 E.L.K.'s deemed and actual long-term debt amounts are different. For the 2022 Test Year, the  
 9 deemed amount of long-term debt is \$7,739,732 (per Appendix 2-OA) and the actual amount of  
 10 long-term debt is \$2,400,000 (per Appendix 2-OB). Accordingly, E.L.K. has positive notional debt  
 11 of \$5,339,732. This notional debt is funded at the OEB approved Long Term Debt rate of 3.49%.

1 **1.8 NOT-FOR-PROFIT CORPORATIONS**

2 E.L.K. is a for-profit corporation. As a result, the filing requirements associated with not-for-profit  
3 corporations are not applicable.

January 31, 2022

E.L.K. Energy Inc  
172 Forest Avenue  
Essex, Ontario  
N8M 3E4

Attention: Cheryl Tratechaud CPA, CMA, Chief Financial Officer, Director Stakeholder Relations

RE: Loan

To Whom It May Concern,

E.L.K. Energy Inc has the following capital facility with CIBC in the amount of \$2,200,000. Details of the loan are provided on page 2.

Should you have any questions, please don't hesitate to contact me.

Regards,

*Blair Umeri*

Blair Umeri  
Enclosure

### **Demand Instalment Loan**

- Credit Limit: \$2,200,000.00
- Purpose: All amounts obtained under this Credit are to be used to refinance existing long term debt.
- Description and Rate: A non-revolving Credit, available as follows:
- Canadian dollar Bankers' Acceptances ("B/As"). CIBC's stamping fee for B/As will be calculated at 0.80% per annum. CAD B/A maximum term of 6 months.
  - Fixed-rate loans in Canadian dollars. Interest on each fixed-rate loan will be calculated at a rate agreed upon by the Borrower and CIBC at the time of drawdown, for such period as they may agree upon up to a maximum of 1 year.
- Repayment: All amounts under this Credit are repayable immediately on demand by CIBC, and this Credit may be terminated in whole or in part by CIBC at any time. Prior to the time that any such demand is made, and without prejudice to CIBC's right to require immediate payment, the Borrower will repay the Demand Instalment Loan with monthly interest-only payments at a fixed rate of 1.073% until July 2, 2022. At the date of maturity on July 2, 2022, the loan will be repaid by re-financing a lesser or equal amount based on the Borrower's cash flow availability. Fixed-rate loans are not to exceed one year.