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## 1   **OVERVIEW**

2   The purpose of this evidence is to summarize the method and cost of financing capital  
3   requirements for the 2012 Test year.

4   Lakefront Utilities Inc. was incorporated April 12, 2000 in accordance with the requirements of  
5   the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A. LUI is a subsidiary of the Town of Cobourg  
6   Holdings Inc.

7

### 8   **Capital Structure:**

9   LUI has a current deemed capital structure of 60.0% debt 40.0% equity.

10   LUI has prepared this rate application with a deemed capital structure of 56% Long Term Debt,  
11   4% Short Term Debt, and 40% Equity to comply with the Report of the Board on the Cost of  
12   Capital for Ontario Regulated Utilities, March 3, 2011.

13   Table 5-1 details LUI's proposed deemed capital structure for 2012 in the Board's Appendix 2-N  
14   format, as well as the 2008 Board Approved, 2008 Actual, 2009 Actual, 2010 Actual, and 2011  
15   Bridge Year.

16   Table 5-2 details the 2008 Board Approved capital structure, and the actual results for the fiscal  
17   years 2008-2011, as well as proposed results for 2011-2012.

18

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TABLE 5 – 1 CAPITAL STRUCTURE

TABLE 5-1				
Deemed Capital Structure for 2008				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	6,798,651	49.30%	6.10%	414,718
Unfunded Short Term Debt	551,615	4.00%	4.47%	24,657
<b>Total Debt</b>	<b>7,350,266</b>	<b>53.30%</b>		<b>439,375</b>
Common Share Equity	6,440,101	46.70%	8.57%	551,917
<b>Total equity</b>	<b>6,440,101</b>	<b>46.70%</b>		<b>551,917</b>
<b>Total Rate Base</b>	<b>13,790,367</b>	<b>100.00%</b>	<b>7.19%</b>	<b>991,292</b>

Deemed Capital Structure for 2009				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	7,389,581	52.70%	6.10%	450,764
Unfunded Short Term Debt	560,879	4.00%	1.33%	7,460
<b>Total Debt</b>	<b>7,950,460</b>	<b>56.70%</b>		<b>458,224</b>
Common Share Equity	6,071,515	43.30%	8.57%	520,329
<b>Total equity</b>	<b>6,071,515</b>	<b>43.30%</b>		<b>520,329</b>
<b>Total Rate Base</b>	<b>14,021,975</b>	<b>100.00%</b>	<b>6.98%</b>	<b>978,553</b>

Deemed Capital Structure for 2010				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	8,017,136	56.00%	6.10%	489,045
Unfunded Short Term Debt	572,653	4.00%	2.07%	11,854
<b>Total Debt</b>	<b>8,589,789</b>	<b>60.00%</b>		<b>500,899</b>
Common Share Equity	5,726,526	40.00%	9.85%	564,063
<b>Total equity</b>	<b>5,726,526</b>	<b>40.00%</b>		<b>564,063</b>
<b>Total Rate Base</b>	<b>14,316,315</b>	<b>100.00%</b>	<b>7.44%</b>	<b>1,064,962</b>

Deemed Capital Structure for 2011				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	8,807,776	56.00%	5.75%	506,144
Unfunded Short Term Debt	629,127	4.00%	2.46%	15,477
<b>Total Debt</b>	<b>9,436,903</b>	<b>60.00%</b>		<b>521,621</b>
Common Share Equity	6,291,269	40.00%	9.58%	602,704
<b>Total equity</b>	<b>6,291,269</b>	<b>40.00%</b>		<b>602,704</b>
<b>Total Rate Base</b>	<b>15,728,172</b>	<b>100.00%</b>	<b>7.15%</b>	<b>1,124,324</b>

Deemed Capital Structure for 2012				
Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	9,814,514	56.00%	4.83%	474,102
Unfunded Short Term Debt	701,037	4.00%	2.46%	17,246
<b>Total Debt</b>	<b>10,515,551</b>	<b>60.00%</b>		<b>491,348</b>
Common Share Equity	7,010,367	40.00%	9.58%	671,593
<b>Total equity</b>	<b>7,010,367</b>	<b>40.00%</b>		<b>671,593</b>
<b>Total Rate Base</b>	<b>17,525,919</b>	<b>100.00%</b>	<b>6.64%</b>	<b>1,162,941</b>

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## 1 COST OF CAPITAL

### 2 Return on Equity

3 LUI is requesting a return on equity ("ROE") for the 2012 Test year of 9.58% in  
4 accordance with the Cost of Capital Parameter Updates for 2011 Cost of Service Applications  
5 issued by the OEB on March 3, 2011. LUI understands that the OEB will be finalizing the ROE for  
6 2012 rates based on January 2012 market interest rate information. LUI's use of an ROE of  
7 9.58% is without prejudice to any revised ROE that may be adopted by the OEB in  
8 early 2012.

### 9 Cost of Debt

#### 10 Long Term Debt

11 LUI is requesting a weighted average return on long term debt for the 2012 Test Year of  
12 4.83%. LUI currently holds a long term note payable to its Shareholder, Town of  
13 Cobourg (affiliated debt) at a return of 7.25%, and an expected 2011 rate of 4.24% on its  
14 \$3,800,000 loan with Infrastructure Ontario, and the 2011 expected rate of 4.24% on the new  
15 debt with TD Canada Trust. See Table 5-2. The new debt with TD Canada Trust is required in  
16 order to finance the capital projects as well as expand SCADA and the OWC. See Exhibit 2 for  
17 details on the substation capital project. This debt is with a commercial institution, and not any  
18 affiliated parties.

19 LUI submits the fixed interest rate on the promissory note to the Town was established at the  
20 time of incorporation when the deemed debt rate was 7.25%. The fixed rate 7.25% was agreed  
21 upon (using the OEB guideline) in order to provide both LUI and the Town of Cobourg with a  
22 predetermined rate of interest. A copy of the Promissory note with the Town of Cobourg is  
23 shown in Appendix A to this Exhibit. LUI is not requesting a change in the long term deemed  
24 rate of 5.32%, as provided by the Ontario Energy Board and would like to have this fact noted in  
25 this rate application.



1

APPENDIX A – PROMISSORY NOTE

2

COPY

RECEIPT

TO: LAKEFRONT UTILITIES INC. (the "Corporation")

RE: Promissory Note for \$7,000,000 (the "New Note") dated September 12<sup>th</sup>, 2006 and effective May 1, 2000 issued by the Corporation to the Corporation of the Town of Cobourg (the "Town"), pursuant to the Town's By-Law No. 31-00, as amended, and issued in replacement of a previously issued promissory note in the amount of \$4,000,000 dated May 1, 2000;

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The Town hereby acknowledges receipt from the Corporation of the New Note.

DATED the 20<sup>th</sup> day of Nov. , 2006.

THE CORPORATION OF THE  
TOWN OF COBOURG

by Peter Delanty  
Peter Delanty  
Mayor

by Richard Stinson  
Richard Stinson  
Municipal Clerk

3

**COPY**

**PROMISSORY NOTE**

Effective: May 1, 2000

Principal Sum: \$7,000,000.00

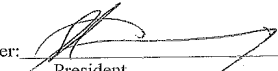
FOR VALUE RECEIVED, Lakefront Utilities Inc. (the "Borrower") promises to pay on demand to or to the order of The Corporation of the Town of Cobourg (the "Lender") its successors and assigns the principal sum of SEVEN MILLION DOLLARS (\$7,000,000) in lawful money of Canada at the Lender's office at 207 Division Street, P.O. Box 577, Cobourg, Ontario K9A 4L3, or at such other place as the Lender may designate by notice in writing to the Borrower and to pay interest on the said principal sum from the date hereof at the below indicated rate in like money at the same place, calculated and payable monthly on the last day of each calendar month commencing with the month of May, 2000 and continuing until the said principal sum and all interest thereon is fully paid and satisfied; and, should the Borrower at any time make default in the payment of any principal or interest, to pay interest on the amount in default at the same rate in like money at the same place and monthly on the same date both before and after default as well as before and after judgment until payment in full.

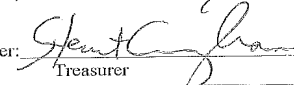
INTEREST RATE: 7.25% per annum, being the debt cost rate per annum established by the Ontario Energy Board as applicable to the Borrower as set out in Chapter 3 of the Ontario Energy Board's electricity Distribution Rate Handbook (the "PBR Handbook") issued March 9, 2000.

The Borrower hereby waives presentment, notice of dishonour, protest and notice of protest.

DATED at Cobourg, Ontario, the 12<sup>th</sup> day of September, 2006 effective the 1st day of May, 2000.

**LAKEFRONT UTILITIES INC.**

per:   
President

per:   
Treasurer

AGREEMENT

**RE:** Values of the WiresCo Assets and the Promissory Note issued to The Corporation of the Town of Cobourg (the "Town") pursuant to the Town's Amended By-Law No. 31-00 dated November 7, 2000 (the "Transfer By-Law").

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RECITALS:

1. Pursuant to resolutions of the directors of Lakefront Utilities Inc. ("WiresCo") dated May 1, 2000 (the "Resolutions"), the directors approved and authorized, as at May 1, 2000, the issuance of 9,999,999 Common shares for a consideration of \$8,380,000 and a promissory note in the principal amount of \$4,000,000 (the "\$4,000,000 Note") in payment of the consideration for the WiresCo Assets (defined in the Resolutions as the "Cobourg Assets") (the "WiresCo Assets") transferred and assigned by the Town to WiresCo pursuant to the Transfer By-Law;

2. Pursuant to the pre-incorporation agreement (the "Agreement") dated as at May 1, 2000 between the Town and The Corporation of the Village of Colborne, as amended, and pursuant to the Transfer By-Law, the purchase price for the WiresCo Assets is the fair market value of the WiresCo Assets on May 1, 2000 (the "Effective Date") and such fair market value is deemed to be the net book value of the WiresCo Assets on the Effective Date subject to adjustment as a result of any audit or valuation conducted after the Effective Date pursuant to the Agreement;

3. AND WHEREAS since the execution of the Resolutions the parties have determined that the aggregate consideration for the WiresCo Assets should have been \$15,380,000 as reflected in the audited financial statements for the period ended April 30, 2000 of the Cobourg Public Utilities Commission and, further, that the amount of the promissory note issued in partial payment of the consideration for the WiresCo Assets should have been issued in the principal amount of \$7,000,000;

NOW THEREFORE, pursuant to the Transfer By-Law and the Agreement, the Town and HoldCo and the President of HoldCo agree:

1. The consideration to be paid for the WiresCo Assets on the Effective Date is \$15,380,000;

2. A promissory note in the amount of \$7,000,000 (the "New Note") shall be issued, effective as of the Effective Date, by WiresCo to the Town in partial payment of the consideration for the WiresCo Assets, being the balance remaining after the assumption by the Corporation of the WiresCo Liabilities (as defined in the Transfer By-Law) and the issuance to the Town of 9,999,999 Common shares of the Corporation for the consideration of \$8,380,000.

4. The delivery to WiresCo of a copy of this Agreement shall be full and sufficient authority and instructions for WiresCo to issue and deliver to the Town the New Note, subject to the return to WiresCo, for cancellation, of the \$4,000,000 Note.

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DATED as of the 30<sup>th</sup> day of NOV., 2006.

THE CORPORATION OF THE  
TOWN OF COBOURG

by Peter Delanty  
Mayor PETER DELANTY

by Richard Stinson  
Municipal Clerk  
RICHARD STINSON

TOWN OF COBOURG HOLDINGS  
INC.

per: Joan E. Chalovich  
Director JOAN E. CHALOVICH

per: Adrian Langshorne  
Director ADRIAN LANGSHORNE

Bruce R. Craig  
President of Town of Cobourg  
Holdings Inc.  
BRUCE R. CRAIG