

# Cost of Capital Analysis

## **Stand-Alone Utility**

A representative BBB rated electric utility in Canada would have a capital structure and related cost as follows:

<b>Component</b>	<b>Proportion</b>	<b>Cost</b>	<b>Weighted Cost</b>
Debt	60%	7.25	4.35
Equity	40%	11.25	4.50
Cost of Capital			8.85%

I have assumed that the Cost of Capital recoverable by NLH should thus be 8.85%.

## **NLH Capital Structure**

Based on the actual capital structure shown by NLH, the costs would be apportioned as follows:

<b>Component</b>	<b>Proportion</b>	<b>Cost</b>	<b>Weighted Cost</b>
Debt	85%	7.25	6.16
Guarantee fee	85%	**1.18	* 1.00
Equity	15%	11.25	1.69
Cost of Capital			8.85%

For this table, I have introduced the Provincial guarantee, which allows the Company to alter the capital structure while keeping the cost of debt and equity constant. Since the overall cost of capital is also constant, the adjusting factor is the value of the guarantee fee itself.

\*  $8.85 - 6.16 - 1.69 = 1.00$

\*\* calculated as  $1.00 / .85$

This confirms that the existing Provincial guarantee fee paid by NLH is within the range of reasonableness.